



- US core PCE in line with expectations ([link](#))
- US money market funds saw record inflows as investors rush to lock in higher yields ([link](#))
- Euro area preliminary August inflation declines to the lowest level since mid-2021 ([link](#))
- RMB appreciates past key 7.10 level, reaching its strongest level in over a year ([link](#))
- China is considering a plan to allow homeowners to refinance their mortgages ([link](#))
- Weekly EM bond issuance rebounds in the last week of August ([link](#))

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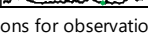
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Markets calm on signs of inflation moderation

US Treasury yields were modestly higher immediately after the release of a US core PCE reading this morning which was in line with market expectations. Prior to the release, European stocks gained modestly, with signs of moderating inflation cementing expectations of interest rate cuts across the pond. Preliminary August headline inflation for the euro area eased to 2.2% y/y, in line with expectations and significantly lower than July's 2.6% reading. Market pricing for ECB rate cuts remained steady with around 64 bps of easing priced by year-end. However, comments from ECB board member Schnabel suggested a more cautious approach stressing that "policy should proceed gradually and cautiously". US equity futures also signaled a positive opening with futures on tech stocks leading the gains in pre-market trading after Marvell and Dell were boosted by forecast-beating results. In emerging markets, the RMB appreciated to its strongest level in over a year and Chinese equities outperformed on news of potential measures to support home mortgages.

Key Global Financial Indicators

Last updated: 8/30/24 8:16 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5592	0.0	0	3	24	17.24
Eurostoxx 50		4971	0.1	1	3	15	10
Nikkei 225		38648	0.7	1	8	18	15
MSCI EM		43	0.0	0	3	9	8
Yields and Spreads			bps				
US 10y Yield		3.86	0.0	6	-28	-25	-2
Germany 10y Yield		2.27	-0.6	4	-7	-28	24
EMBIG Sovereign Spread		393	-1	-3	-2	-26	10
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		46.0	0.4	0	1	-5	-4
Dollar index, (+) = \$ appreciation		101.4	0.0	1	-3	-2	0
Brent Crude Oil (\$/barrel)		79.8	-0.2	1	2	-7	4
VIX Index (% change in pp)		15.6	-0.1	0	-2	2	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

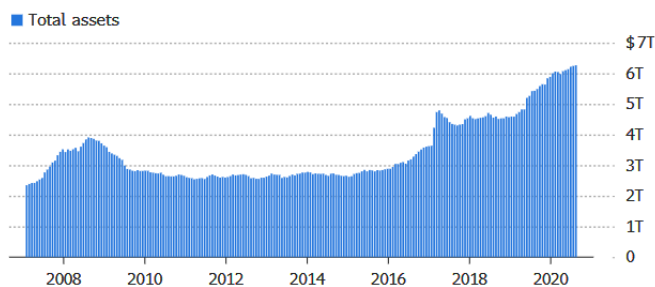
US stocks edged lower yesterday as extended declines in Nvidia's stock weighed on the tech sector, offsetting the otherwise broad-based gains in rest of the sectors on stronger economic data. About three-quarters of the S&P 500 constituents gained and the small cap Russell 2000 rose +0.8%. Q2 GDP was revised up by 0.2 ppts to 3% annualized, with personal consumption revised up by 0.6 ppts to 2.9%. Meanwhile the jobless claims held steady at 231K. Taken together, market contacts view the data as having alleviated concerns of an imminent slowdown. As a result, Treasury yields climbed 3 bps across the curve, and the market implied policy rate path edged higher, though still expecting 4 full rate cuts by year-end.

This morning, **US core PCE, the Fed's preferred inflation gauge, rose 0.2% m/m and 2.6% y/y in July, largely matching expectations.** Similarly, PCE rose 0.2% m/m or 2.5% y/y, in line with expectations. Personal income grew 0.3% m/m, slightly above expectations, and personal spending rose 0.5% m/m (as expected). US Treasury yields were modestly higher immediately after the release while the dollar was flat.

Inflows into US money market funds hit a record as investors lock in higher yields before rate cuts. ICI data showed US money market funds attracted over \$21 bn inflows in August, lifting the total assets of money market funds to \$6.2 tn. The record monthly inflow was also likely supported by the major selloff in risk assets in early August on flight-to-safety flows.

Record Sum of Cash Sits in Money-Market Funds

Total money-market fund assets are at a record \$6.26 trillion

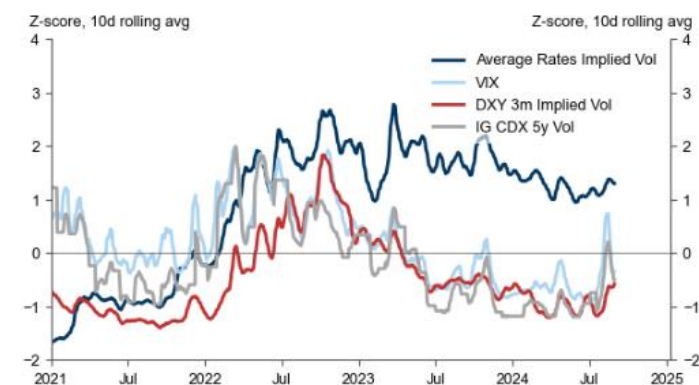


Source: Investment Company Institute
Note: Data as of Aug. 28, 2024

Bloomberg

Interest rate volatility remains elevated on policy uncertainty. Volatility in the risk assets has normalized as the unwinding of carry trades have played its course and fears of an imminent slowdown have eased. In contrast, interest rate volatility remains elevated despite greater convergence on the growth and inflation outlook, as indicated by a lower forecast dispersion. Most analysts attributed the volatility premia in interest rates to policy uncertainty, in particular from the upcoming US presidential elections, while others also point to uncertainty around terminal rates.

Rates implied vol = average of the ATM swaption vol surface; z-score since 2021

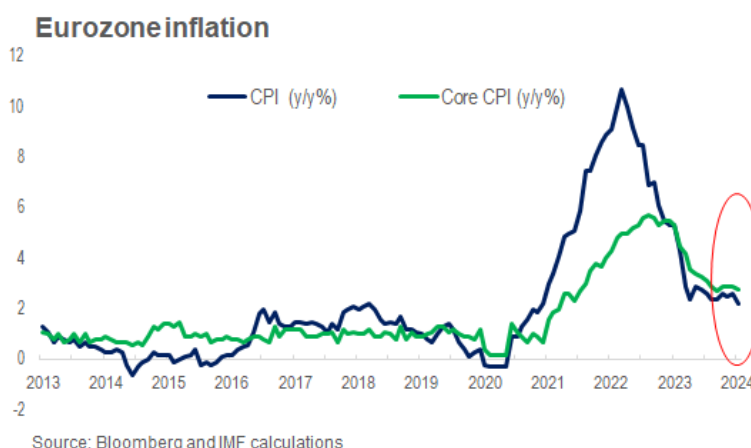


Source: Goldman Sachs Global Investment Research, Bloomberg

Euro area

European equity markets opened higher, hitting an intra-day record high as preliminary August inflation data slowed. The Stoxx 600 index was higher (+0.3%) in early morning trade, led by gains in the real estate (+1.3%) and utilities (+1.0%) sectors, with the index up close to 10% year-to-date. Spreads of 10-year Italian BTPs over equivalent tenor Bunds were broadly unchanged at around 138 bps, while 10-year French OAT spreads held steady at 72bps. Elsewhere, Bloomberg reported that S&P is scheduled to give a rating update on Portugal after-market hours.

Euro area preliminary August inflation declined to the lowest level since mid-2021. Preliminary August headline inflation eased to 2.2% y/y, in line with expectations and significantly lower than July's 2.6% reading. Market pricing for ECB rate cuts remained steady with around 64 bps of easing priced by year-end with strategists at NatWest noting that "September feels nailed on now for a rate cut." Separately, comments from ECB Executive Board member Schnabel suggested a more cautious approach remarking that "policy should proceed gradually and cautiously" and that "the pace of policy easing cannot be mechanical. It needs to rest on data and analysis." Echoing Schnabel's more cautious tone, analysts at ING noted that while the progress on inflation and wages seems enough for a second 25 bps rate cut in September, "this remains a slow and gradual process of released the brakes on the economy as the ECB continues to be concerned about upside risks to the inflation outlook." Following this morning's data release, German bund yields edged marginally lower across all tenors with the 10-year bund yield 1 bp lower at 2.25% and the 2-year bund yield relatively unchanged at 2.34%.



United Kingdom

The pound has appreciated against the euro to reach a five-week high. Analysts at ING commented that sterling's recent gains against the common currency reflect a favorable repricing of UK-eurozone interest rate expectations. While markets have added to ECB rate cut expectations on recent softer-than-expected inflation data in Germany and Spain, ING noted that there has been some hawkish repricing in the GBP Sonia curve reflecting higher relative UK interest rate expectations. According to ING, a rebound in the euro against the pound would require markets to increase BoE easing expectations which the analysts believe is unlikely for now as policymakers in Threadneedle Street remain cautious about further rate cuts. This morning sterling was trading slightly stronger (+0.1%) against the euro at 0.840/€ and is up 0.8% since the 1st of August.



Japan

Rising interest rates drove Japan's FY2025 budget requests to an all-time high. Data compiled by Nikkei indicate that Japanese government agencies have requested a record-breaking budget of over ¥117 tn (\$807 bn). The soaring budget requests were partly driven by rising debt-servicing costs, up 7% from fiscal 2024 to ¥28.91 tn, with ¥10.93 tn allocated to interest payments (+13%). Meanwhile, **the average interest rate on outstanding loans by Japanese banks rose for the seventh consecutive month to 0.83% in July.** This increase is expected to impact mortgages and fixed-rate corporate loans in the coming months. Nikkei noted that top banks are also considering raising the short-term prime rate in September and beyond, which is expected to accelerate the increase in short-term lending rates. On the data front, **August Tokyo CPI inflation came in higher than expected** (+2.6% y/y, expected: +2.3%, prior: +2.2%). While the core gauge was below the BoJ's target of 2%, JP Morgan analysts noted that excluding the 0.9 ppt drag due to education subsidies, core inflation rose by 2.1% y/y in August, with sequential growth accelerating to 2.3% 3m/3m annualized from the prior 0.8%. The yen appreciated (+0.1%) and Japanese stocks gained (Nikkei 225: +0.7%).

Emerging Markets

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Asian equities gained on buoyant market sentiment, driven by hopes of a soft landing for the US economy. Chinese equities (CSI 300: +1.3%) led the gains, as real estate stocks benefited from news of potential measures to support home mortgages. **Most Asian currencies appreciated**, with the Philippine peso (+0.2%) and RMB (+0.1%) leading the gains. **EMEA equities mostly traded higher while currencies were mostly stronger.** The South African rand strengthened to a 13-month high against the dollar (+0.5%), with Bloomberg analysts pointing to optimism over South Africa's economy and also hopes for the start of the Fed's easing cycle. CEE currencies were little changed against the euro with the Polish zloty outperforming (+0.2% to 4.28/€). On the data front, Polish preliminary August headline inflation increased in line with expectations (+4.3% y/y from 4.2%). **Latin American currencies underperformed emerging markets while equities were mixed on Thursday.** The Brazilian real (-1.1%) and Mexican peso (-1%) led the regional currency retreat. Equities in Argentina (+2.6%), Mexico (+1.3%), and Chile (+1%) rallied while Brazil (-1%) and Colombia (-0.6%) experienced losses. On the monetary policy front, **the Dominican Republic cut their overnight rate 25 bps to 6.75%.**

China

The RMB appreciated to its strongest level in over a year. Both onshore (+0.1%) and offshore (+0.1%) RMB strengthened past the 7.10 key level, on speculation that expectations of Fed rate cuts prompted traders to unwind RMB-funded carry trades. Chinese exporters are reportedly selling more dollars, further boosting the RMB. Separately, **the People's Bank of China (PBC) bought RMB400 bn of special**

government bonds from primary dealers on Thursday, in a move to prevent tighter liquidity after the ministry of finance rolled over the debt in a private auction. While the operation does not serve the purpose of open market CGB trading to influence yields, traders are still closely watching any further moves by the PBC. A bond trading section was added to the PBC's official website on Wednesday, fueling speculation that the PBC is moving closer to carrying out such operations in the secondary market. Separately, **China is considering a plan to allow homeowners to refinance their mortgages** to reduce borrowing costs and boost consumption. This would enable homeowners to renegotiate terms with their current lenders or refinance with a different bank for the first time since the global financial crisis. This news boosted market sentiment (CSI 300: +1.3%), with real estate stocks gaining +4.5%. **Chinese bank stocks underperformed** (-2.3%), reflecting concerns that the mortgage refinancing will further squeeze the net interest margin of banks.

Offshore Yuan Hits Strongest in Over a Year Against I



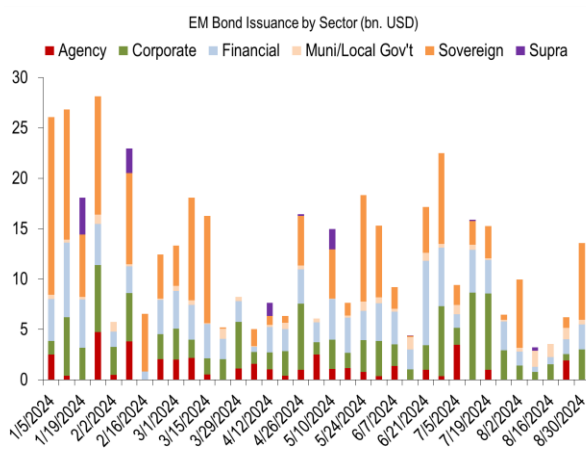
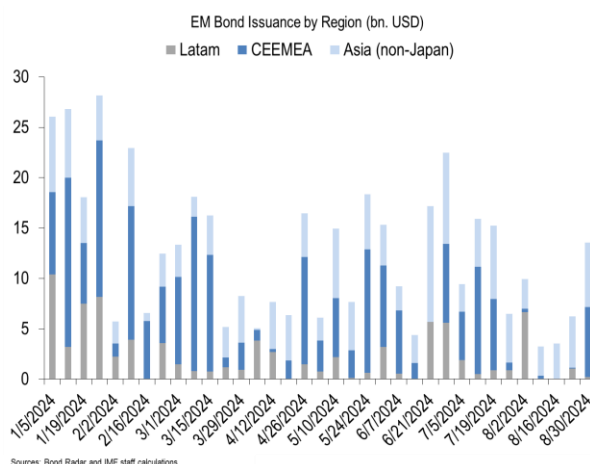
Source: Bloomberg

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EM Bond Issuance

Weekly EM bond issuance rebounded in the last week of August. Through Thursday, issuance for the week totaled \$13.6 bn reaching levels last seen in mid-July, after a sluggish first few weeks of August. Over half of the total came from CEEMEA, with the other half coming mostly from Asia ex-Japan. Sovereigns dominated issuance, with 56% of the total. Corporates (22%) and financials (18%) were the next two largest issuers after sovereigns, with the rest coming from muni/local governments (3.5%). All bonds issued had fixed coupons, with maturities ranging from 2–25 years.



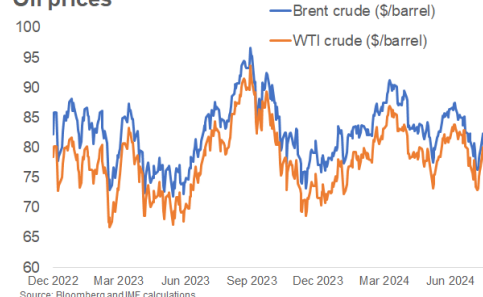
Libya

Oil prices set to end the month lower despite significant decrease in Libya's oil production. Standard Chartered analysts note that the 2022 agreement that stabilized Libyan crude oil output at around 1.2 mn barrels per day is showing signs of breaking down, with the country's eastern government indicating that production would cease in a dispute with the western government. Bloomberg reports that Libya's oil production fell to 591,000 barrels per day as of August 28. Brent crude oil prices are now roughly 1% higher than at the start of the week at around \$80/pbl, but roughly 1% weaker than at the start of August, as markets also digest an outlook of lower demand growth from China and OPEC+'s supply. Moreover, Goldman Sachs analysts have recently revised downward their range for Brent crude prices by \$5/bbl to \$70-85/bbl. Nevertheless, Bloomberg analysts caution that persistent reductions in Libya's oil output could see a more significant impact on oil prices. Standard Chartered analysts estimate that since 2011 periodic instability in Libya's oil output (as a result of having two governments) has resulted in the loss of around 4 bn barrels of output, or a roughly \$320 bn reduction in Libya's oil revenue.

Figure 1: Libyan crude oil output (mb/d)


















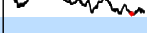



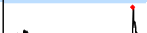





Oil prices



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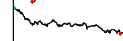

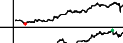

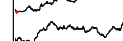











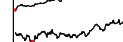



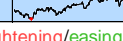

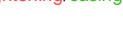
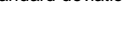






Global Financial Indicators

8/30/24 8:03 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5610	0.0	0	3	24	18
Europe		4971	0.1	1	3	15	10
Japan		38648	0.7	1	8	18	15
China		3321	1.3	0	-2	-12	-3
Asia Ex Japan		73	0.2	0	3	10	9
Emerging Markets		43	0.0	0	3	9	8
Interest Rates			basis points				
US 10y Yield		3.86	0.0	6	-28	-25	-2
Germany 10y Yield		2.27	-0.6	4	-7	-28	24
Japan 10y Yield		0.90	-0.1	0	-11	25	28
UK 10y Yield		3.99	-3.2	8	-6	-44	45
Credit Spreads			basis points				
US Investment Grade		134	0.6	0	4	-11	0
US High Yield		365	-0.4	-5	5	-49	-20
Exchange Rates			%				
USD/Majors		101.39	0.0	1	-3	-2	0
EUR/USD		1.11	0.1	-1	2	1	0
USD/JPY		145.4	0.3	1	-5	-1	3
EM/USD		46.0	0.4	0	1	-5	-4
Commodities			%				
Brent Crude Oil (\$/barrel)		79.8	-0.2	1	2	-1	6
Industrials Metals (index)		146	1.0	0	7	2	3
Agriculture (index)		55	0.6	3	1	-18	-12
Implied Volatility			%				
VIX Index (% change in pp)		15.6	-0.1	-0.3	-2.1	1.7	3.1
Global FX Volatility		8.7	0.0	0.3	1.4	0.6	0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		104	0.3	0	1	-28	0
Italy		138	0.1	4	2	-27	-29
Portugal		60	0.0	2	-3	-10	-3
Spain		82	0.0	3	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: 8/30/2024 8:02 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	0.1	0.5	2	3	0		2.0	0.3	1	-2	-63	-53
Indonesia		15455	-0.2	0.2	5	-1	0		6.6	1.0	-1	-30	26	15
India		84	0.0	0.0	0	-1	-1		7.0	2.0	6	-7	(53.0)	-18
Philippines		56	0.2	0.5	4	1	-1		5.1	0.1	0	-18	-85	-50
Thailand		34	0.2	0.2	6	3	1		2.4	-1.0	0	-14	-49	-29
Malaysia		4.32	-0.2	1.3	7	7	6		3.8	-0.5	-2	0	-9	2
Argentina		950	-0.2	-0.5	-2	-63	-15		41.2	44.3	138	-319	-7069	-4517
Brazil		5.63	-1.1	-0.8	0	-14	-14		11.8	11.5	14	-33	71	138
Chile		913	0.0	0.8	5	-6	-3		4.9	0.3	2	-38	-39	2
Colombia		4120	-0.6	-1.4	-1	0	-6		7.8	0.0	6	-54	-30	11
Mexico		19.65	1.0	-2.7	-4	-15	-14		9.1	-3.5	23	-21	32	65
Peru		3.7	-0.3	0.1	0	-2	-1		6.5	-0.1	-3	-38	-37	-13
Uruguay		40	0.0	0.1	0	-6	-4		9.6	1.1	5	0	34	4
Hungary		354	0.1	-0.7	3	-2	-2		6.0	0.0	5	14	-83	19
Poland		3.86	0.2	-1.2	3	6	2		4.6	-4.5	11	-30	-9	14
Romania		4.5	0.0	-1.0	2	1	0		6.5	0.2	3	-2	-12	28
Russia		90.8	1.4	0.8	-5	6	-1							
South Africa		17.6	0.7	0.5	4	6	4		8.7	-2.0	9	-20	-67	-45
Türkiye		34.06	0.0	-0.2	-3	-22	-13		28.5	0.0	29	31	696	177
US (DXY; 5y UST)		101	0.0	0.6	-3	-2	0		3.68	0.9	3	-36	-59	-17

	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		3321	1.3	0	-2	-12	-3		151	0	6	-33	-7		
Indonesia		7671	0.6	2	5	10	5		102	-1	-8	-32	6		
India		82366	0.3	2	2	26	14		113	2	8	-26	-3		
Philippines		6898	0.1	0	4	12	7		90	0	-4	-20	10		
Thailand		1359	0.1	0	4	-13	-4		0	0	0	0	0		
Malaysia		1679	1.5	3	4	15	15		89	-3	1	-8	4		
Argentina		1660144	2.6	5	18	146	79		1450	-114	-115	-608	-463		
Brazil		136041	-1.0	1	8	16	1		221	-3	-2	-11	6		
Chile		6448	1.0	0	0	7	4		121	-2	1	-6	-4		
Colombia		1335	-0.6	0	0	20	12		317	5	6	-23	46		
Mexico		53139	1.3	0	2	-2	-7		323	3	10	-38	-11		
Peru		28442	0.4	0	-3	22	10		144	0	3	-10	0		
Hungary		72019	-1.6	-1	-2	28	19		153	-4	-3	-54	4		
Poland		84762	0.4	1	2	23	8		107	-1	3	-21	10		
Romania		18320	0.5	-1	-1	38	19		200	1	9	-16	-1		
South Africa		83965	-0.3	0	3	12	9		298	0	-9	-84	-10		
Türkiye		9833	0.0	-1	-8	24	32		300	4	9	-80	-14		
EM total		43	0.3	0	3	9	8		407	-2	-1	29	62		

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

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