GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, DECEMBER 12, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **ECB cuts policy rate by 25 bps to 3% as expected** (link)
- **Swiss central bank surprises with 50 bps rate cut to weaken franc** (link)
- **Government bond yields in China fall to record low** (link)
- **S&P 500 equity correlation at all-time low signals potential risks ahead** (link)
- **Higher US tariffs on Mexico and Canada will likely harm all three countries** (link)
- **Markets in Argentina rally as inflation falls to lowest level in four years** (link)

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Global markets hold steady ahead of key central bank meetings

Stocks in Europe were broadly unchanged and US equity index futures were slightly lower as the ECB cut its policy rate by 25 bps to 3% as expected. The Fed and BOE meet next week. The Nasdaq set a new record yesterday, driven once again by gains in the big US technology companies. Stocks in Asia were generally higher. Government bond yields in China fell to a record low as the spread between 10-year government bond yields in China and the US widened to 250 bps. The Swiss National Bank surprised markets by cutting its policy rate by 50 bps to 0.50%, one of the lowest in the world, in an effort to weaken the Swiss franc. Rate cuts are a major trend in among some central banks, as Canada cut yesterday by 50 bps to 3.25%, Australia indicated that cuts are forthcoming and China also promising easing measures. Brazil stands out, as its central bank hiked by 100 bps yesterday to 12.25% to fight inflation.

Key Global Financial Indicators

Last updated: 12/12/24 8:38 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6084	0.8	0	2	31	28
Eurostoxx 50		4967	0.2	0	5	9	10
Nikkei 225		39849	1.2	1	3	21	19
MSCI EM		44	0.4	1	2	13	10
Yields and Spreads					bps		
US 10y Yield		4.27	0.0	10	-16	7	39
Germany 10y Yield		2.13	0.1	2	-23	-10	10
EMBIG Sovereign Spread		322	-3	-13	-3	-76	-62
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		43.9	0.3	0	-1	-8	-9
Dollar index, (+) = $ appreciation		106.8	0.1	1	1	3	5
Brent Crude Oil ($/barrel)		73.4	-0.1	2	2	0	-5
VIX Index (%, change in pp)		13.7	0.1	0	-1	2	1

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

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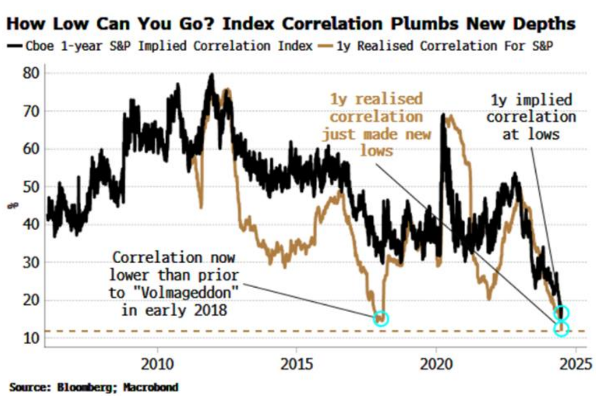
United States

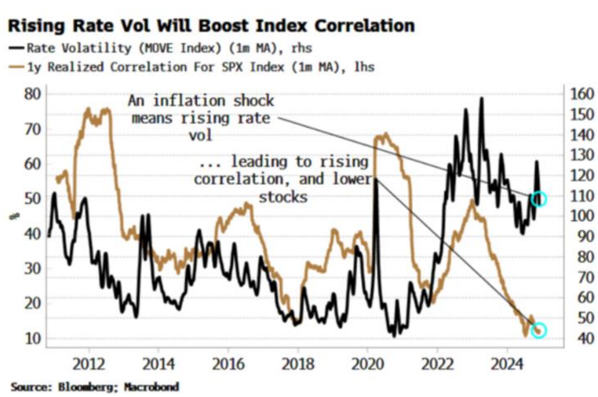
US PPI came in higher than expected, but the market response was limited. Treasury yields, US equity index futures and the dollar were largely unchanged in the immediate aftermath of the data release.

US November PPI Report
Source: Bloomberg

Variable	Consensus Forecast	Actual Data
PPI month-on-month	+0.2%	+0.4%
Core PPI mom	+0.2%	+0.2%
PPI year-on-year	+2.6%	3%
Core PPI yoy	+3.2%	3.4%

Intra-equity correlation between stocks in the S&P 500 is at an all-time low, signaling potential risks for the market in the months ahead. The decline in correlation limits the extent to which the VIX can decline further, as the level of the VIX is partially dependent on the level of correlation, meaning that the VIX will be pushed higher if correlations start to increase. Many analysts think that an increase in correlation is inevitable given the uncertainties that confront markets in 2025, including potential trade wars, the prospect of stubbornly high inflation, and larger budget deficits. It is a widely held view that the biggest threat to markets is a resurgence of inflation, which would force the Fed to reconsider its monetary stance and inject significant interest rate volatility into the financial system. Higher interest rate volatility is a negative for equity markets, as it leads to higher correlation and a rise in the VIX.



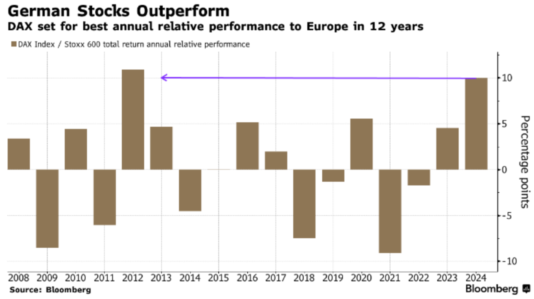


If the 25% tariffs on Mexico and Canada are actually imposed, the impact on all three countries will be very negative. Goldman estimates that the tariffs would result in a 1-4% hit to GDP in Mexico and Canada and a 2% increase in inflation. For the US, the analysts forecast that a tariff increase of 1% would lead to a core PCE increase 0f 0.1% and cause a decline in GDP 0f 0.05%, assuming that Mexico and Canada retaliate. They calculate that the announced tariffs would increase the overall rate of tariffs by 7.3%, which would raise core PCE inflation by 0.7% and reduce GDP by 0.3%. However, they think the tariff threat is an opening move in future negotiations on trade and immigration; they point out that similar tariffs announced in 2019 were never actually imposed.

Euro Area

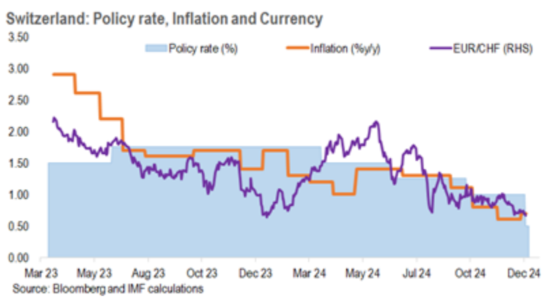
The ECB cut its policy rate by 25 bps to 3% as expected. European equities were broadly unchanged. European government bond yields were mostly trading higher across all tenors with the 10-year German bund yield at 2.15% and the 10-year French OAT yield fractionally higher at 2.91%. The 10-year French-German yield spread was broadly steady at 76bps, and the 10-year BTP-Bund spread was relatively unchanged at 108bps. Money markets expect around 150bps of easing through October next year.

German equities are expected to continue to outperform in 2025. According to Bloomberg data, the German DAX index has gained around 22% year-to-date (YTD), outperforming other major European bourses. A surge in software company SAP has largely driven the gains, with the DAX index closing above 20,000 for the first this this month and YTD returns on the index outpacing France's CAC 40, which is down 1.6% YTD and the UK's FTSE 100 index which is up 7.4% YTD. The DAX is expected to continue to perform well next year with Chinese demand, lower borrowing costs and an expected increase in government spending following German elections in February cited as supportive factors. According to Bloomberg, more than 80% of sales for the 40 largest companies in the DAX are generated from abroad, making the index more exposed to global developments and demand than domestic factors.



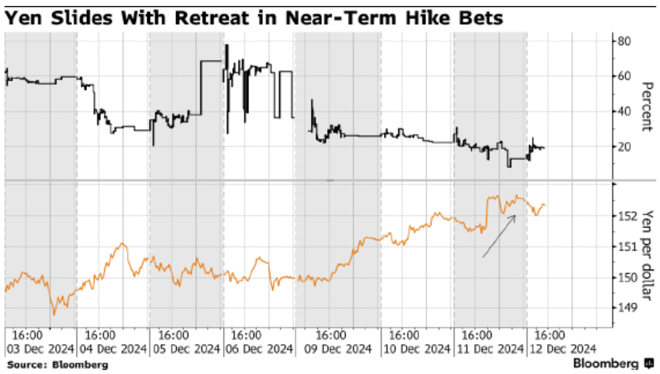
Switzerland

The Swiss National Bank (SNB) surprised markets with a 50bps rate cut to 0.50%, one of the world's lowest policy rates, when most economists had expected a 25bps reduction. Ahead of today's decision, money markets had assigned around a 30% probability of a 50bps rate cut, according to Bloomberg data**. Immediately following the announcement, the Swiss franc weakened by around 0.6% against the euro to trade at 0.933**, although it pared losses to trade around 0.3% weaker by mid-morning. The accompanying statement noted that the SNB "remains willing to be active in the foreign exchange market as necessary" and that "it will adjust its monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term." Bloomberg analysts note that today's larger than expected rate cut reflects policymakers' concerns about the downside risks to inflation and economic activity. Meanwhile, analysts at ING note that today's rate cut has likely increased the probability of negative rates next year, although they do not expect this to be the base case and consider today's decision as a front-loaded rate cut, rather than a sign that negative rates are on the horizon.



Japan

The uncertain outlook for a December rate hike has weighed on the yen. In a Bloomberg survey, 44% of economists predict the BOJ will raise its policy rate next week, but 52% expect the rate hike will be pushed to January. Meanwhile, the rate hike probability as implied by overnight indexed swaps has receded to 19% for the December meeting, with a 78% likelihood of a hike by the January meeting and 95% by March. With BOJ watchers split over the outcome of the December meeting, market observers noted that currency market positioning has been relatively light. Meanwhile, a rate hike delayed until March is seen as a tail risk. Bank of America expects the yen carry trade to resurface if such tail risk were to materialize, particularly as investors scale back rate cut expectations for the US. The yen is unchanged on the day, holding steady at JPY 152.48 against the dollar.



Emerging Markets

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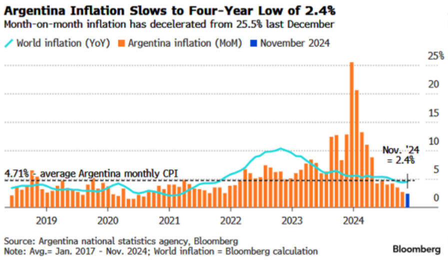
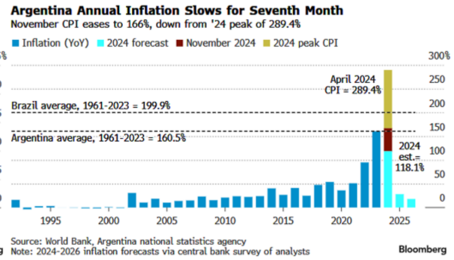
EMEA equities and currencies traded mostly higher this morning as yesterday's US inflation data reinforced expectations of a Fed rate cut next week. In CEE, equities mostly gained across the region, with Czechia outperforming (0.9%) and Poland continuing to underperform (-1%) this morning, while currencies advanced against the euro, with the Hungarian forint gaining (0.3%) to trade at HUF408.64/€, while the Polish zloty slid (-0.2%) to PLN4.27/€. **Asian currencies were mixed and on net little changed.** The Korea won weakened (-0.2%) in response to news that President Yoon would resist a second impeachment attempt, underperforming its regional peers. Korea equities, by contrast, gained (+1.6%), extending their increases for the week as the authorities' market stabilization measures continue to lift sentiment. **Latin American assets closed mostly higher on Wednesday.** Equities in Argentina (+4.1%) rallied as November inflation slowed to its lowest in four years. The Brazilian real (+1.5%) outperformed EM currencies and equities (+1.1%) gained after the central bank increased its key Selic rate to 12.25%.

Argentina

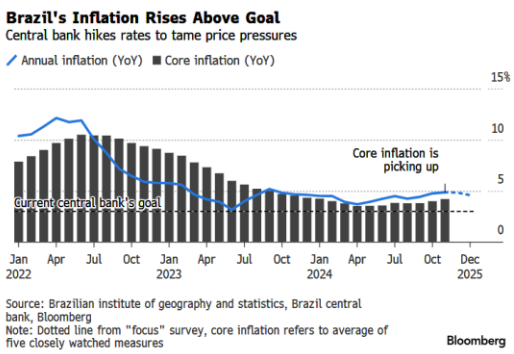
Argentina's monthly inflation fell to its lowest level in over four years. November CPI fell to 2.4% m/m, lower than Bloomberg's median survey expectation of 2.8%, and the lowest level since July 2020. Annual inflation also slowed more than expected in November to 166% y/y (expected 167.2%). Argentina's MERVAL index was the best performing major equity index yesterday, rallying 4.1%. Bloomberg analysts highlight that the country is getting closer to slowing the pace of its crawling peg from 2% to 1% as inflation continues to fall.





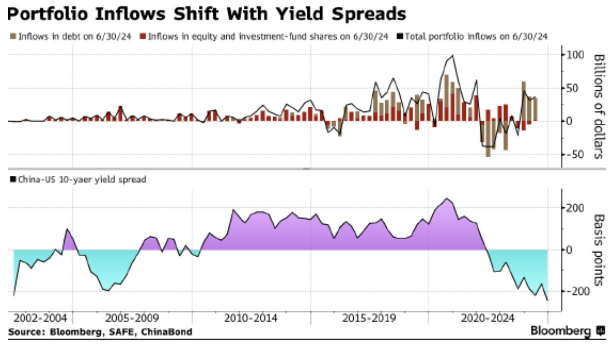
Brazil

Brazil's central bank increased its key Selic rate by 100 bps to 12.25% as expected. The decision was correctly predicted by 14 out of 35 economists in a Bloomberg survey, with 20 others forecasting 75 bps and one 50 bps. Policymakers revealed they will hike by the same magnitude of 100 bps at the next two meetings "if the scenario evolves as expected". The real appreciated against the dollar by about 0.6% in anticipation of the decision, then experienced a sharp rally after the announcement, closing 1.5% higher on the day. Brazilian equities were down 0.3% before the meeting and shot up directly following the announcement to close the day 1.1% higher.



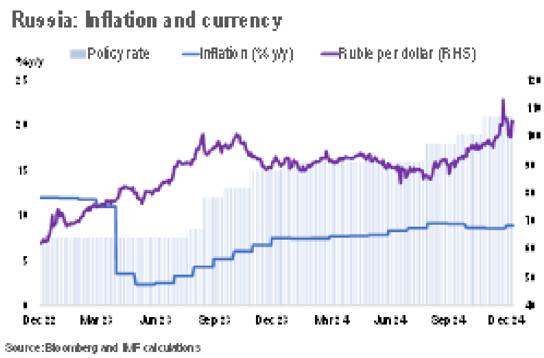
China

CGB and US Treasury bond yield spreads widened amid expectations for policy support. The 10-year central government bond (CGB) yield fell to a fresh record low of 1.81% this week following the Politburo's pivot to a "moderately loose" monetary policy in 2025 and is now about 250 bps below those on similar Treasuries, the widest level in 22 years. Moreover, although additional fiscal spending could push CGB yields higher, some analysts expect deflation risks in China to keep CGB rates low. BNP Paribas, for example, has recommended long CGB positions. Bloomberg data indicated record portfolio inflows to China's bonds in the last quarter of 2020 when CGB yields fell below Treasuries by over 200 bps. Meanwhile, **expectations for policy support have boosted equities** (+1%), with shares related to consumer spending outperforming on anticipation for concrete measures to lift domestic demand. Shares such as Trip.com and Haidilao International rose by more than 5% each. The gains were also reportedly boosted by a local media report that major cities including Shanghai and Beijing are launching new voucher programs to encourage local consumption before the Lunar New Year holiday in late January. The outcome of the annual Central Economic Work Conference is expected to be announced after the close of Asian markets.



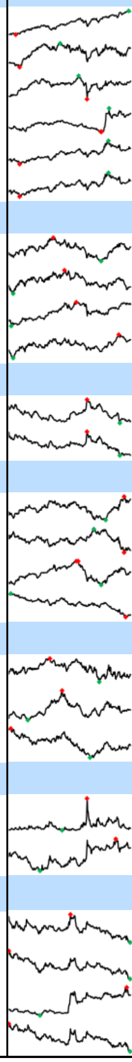
Russia

The ruble advanced (2%) against the dollar this morning, to trade at RUB103.5/$, after data released yesterday showed that **inflation rose in line with expectations in November** with headline inflation printing at 8.9% y/y from 8.5% y/y in October, and core inflation up in November to 8.3% y/y (vs est. 8.4%) from 8.2% in October. The ruble has depreciated by about -13% against the dollar YTD and has been recently hit by expectations of new sanctions targeting Russian oil exports. Analysts at Bloomberg expect the central bank of Russia (CBR) to hike its policy rate (currently at 21%) by additional 1-2% at its upcoming MPC meeting on December 20, noting that inflation is significantly above the central bank's target of 4% y/y.JP Morgan also expects the policy rate to increase to 22% (+1%) in December but forecasts lower GDP growth to 1.1% in 2025, from 3.8% in 2024, and expects inflation to cool down to 5.5% y/y at the end of 2025, enabling the CBR to reduce the benchmark rate to 14% by the end of 2025.



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), Benjamin Mosk (Senior Financial Sector Expert), Sonal Patel (Senior Financial Sector Expert-London Representative), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are John Caparusso (Senior Financial Sector Expert), Mustafa Oguz Caylan (Research Officer), Sally Chen (IMF Resident Representative in Hong Kong), 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), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Hong Xiao (Economist), Dmitry Yakovlev (Senior Research Officer), Akihiko Yokoyama (Senior Financial Sector Expert), and Jing Zhao (Economic Analyst). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

	Level		Change				
12/12/24 8:41 AM	Last 12m 	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		6,069	0.8	-0.1	1.4	30.7	27
Europe		4,967	0.2	0.3	4.7	9.5	10
Japan		39,849	1.2	1.2	2.9	21.0	19
China		4,029	1.0	2.7	-2.0	19.6	17
Asia Ex Japan		76	0.3	0.9	1.6	16.5	14
Emerging Markets		44	0.4	1.3	1.7	12.6	10
Interest Rates					basis points		
US 10y Yield		4.3	0	10	-16	7	39
Germany 10y Yield		2.1	0	2	-23	-10	10
Japan 10y Yield		1.1	-2	-2	4	33	44
UK 10y Yield		4.3	1	5	-17	36	79
Credit Spreads					basis points		
US Investment Grade		116	1	-1	0	-21	-18
US High Yield		305	0	-3	1	-105	-80
Exchange Rates					%		
USD/Majors		106.8	0.1	1.0	0.7	2.8	5
EUR/USD		1.05	0.0	-0.9	-1.2	-2.8	-5
USD/JPY		151.8	-0.4	1.2	-1.8	4.4	8
EM/USD		43.9	0.3	0.0	-0.6	-7.7	-9
Commodities					%		
Brent Crude Oil ($/barrel)		73.4	-0.1	1.8	2.5	0.7	-1
Industrials Metals (index)		146.1	-0.1	-0.3	1.8	8.7	2
Agriculture (index)		57.3	-0.1	1.1	2.0	-10.8	-8
Implied Volatility					%		
VIX Index (%, change in pp)		13.7	0.1	0.1	-1.1	1.6	1.2
Global FX Volatility		8.6	0.0	0.0	0.0	0.6	0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		81	3	1	-9	-41	-23
Italy		110	4	1	-18	-68	-58
France		76	0	-2	-1	22	23
Spain		65	1	-1	-11	-37	-32

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

Emerging Market Financial Indicators

Last updated: 12/12/2024 7:36 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		7.27	-0.1	-0.1	-0.5	-1.3	-2.3		1.8	-1	-9	-21	-89	-78
Indonesia		15945	-0.2	-0.5	-1.0	-2.0	-3.4		7.0	0	3	22	22	41
India		85	0.0	-0.2	-0.6	-1.7	-2.0		7.0	-1	3	-20	-32	-18
Philippines		58	0.1	-0.6	1.0	-4.5	-4.9		0.0	-700	-708	-694	-687	-694
Thailand		34	0.1	0.9	2.9	5.5	1.2		2.3	2	0	-15	-57	-43
Malaysia		4.44	-0.1	-0.2	0.0	5.6	3.5		3.8	1	2	-6	4	7
Argentina		1017	0.0	-0.4	-1.8	-64.0	-20.5		29.2	-127	-87	-205	-5816	-5719
Brazil		5.90	1.1	1.8	-2.5	-15.9	-17.8		14.3	-17	5	121	378	426
Chile		973	0.3	-0.3	1.3	-9.8	-9.4		5.3	0	3	-11	-22	-1
Colombia		4348	0.6	1.6	0.3	-8.4	-10.9		11.0	2	20	42	31	112
Mexico		20.14	0.0	0.3	2.2	-14.0	-15.7		10.0	5	3	-6	52	90
Peru		3.7	-0.4	0.3	1.4	1.3	-0.6		6.5	0	-1	-16	-53	-14
Uruguay		44	-0.9	-2.2	-4.4	-10.8	-12.0		9.6	1	1	13	-11	3
Hungary		389	0.4	0.3	-0.6	-8.9	-10.7		6.1	-3	-18	-54	-33	23
Poland		4.07	-0.1	-1.0	0.5	-1.6	-3.4		5.4	-1	8	3	24	36
Romania		4.7	0.0	-0.6	-1.1	-2.7	-4.8		7.0	8	-29	27	42	81
Russia		103.4	2.2	-2.6	-4.9	-12.7	-13.5							
South Africa		17.7	0.2	1.9	2.5	7.3	3.9		10.4	-1	0	-22	-123	-92
Türkiye		34.88	0.0	-0.5	-1.5	-16.8	-15.3		30.8	0	73	8	446	459
US (DXY; 5y UST)		107	0.0	0.9	0.6	2.7	5.3		4.16	3	9	-15	-6	31

	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		4,029	1.0	2.7	-1.4	17.6	17.4		99	0	-2	-55	-59
Indonesia		7,394	-0.9	1.1	1.2	4.5	1.7		92	-12	5	-13	-4
India		81,290	-0.3	-0.6	4.6	16.8	12.5		85	-2	4	-25	-31
Philippines		6,641	0.0	-0.7	-1.1	6.2	3.0		80	-11	6	-4	0
Thailand		1,440	-0.2	-1.0	-0.8	6.0	1.7		0	0	0	0	0
Malaysia		1,602	-0.1	-0.8	-0.6	10.6	10.1		71	1	12	-14	-14
Argentina		2,291,149	4.1	3.4	13.9	126.8	146.4		727	-33	-124	-1220	-1186
Brazil		129,593	1.1	2.8	1.5	2.5	-3.4		220	-7	16	5	5
Chile		6,732	0.2	1.1	3.4	13.8	8.6		112	-8	-1	-13	-13
Colombia		1,383	0.0	-0.8	2.8	20.4	15.7		313	-15	-4	16	42
Mexico		51,284	-0.2	0.1	1.1	-7.0	-10.6		300	-10	10	-61	-34
Peru		30,191	1.3	1.9	-0.9	36.3	16.3		132	-11	-5	-17	-12
Hungary		80,746	0.3	1.9	4.9	36.8	33.2		144	-20	-4	-16	-5
Poland		81,372	-1.2	-1.7	0.4	5.9	3.7		106	-10	-5	7	9
Romania		17,329	-0.4	7.2	-2.0	14.4	12.7		210	-22	11	10	9
South Africa		87,118	0.0	0.3	3.5	20.0	13.3		276	-12	9	-67	-32
Türkiye		10,124	0.6	1.9	9.7	30.7	35.5		253	-9	3	-93	-61
EM total		44	-0.1	1.3	1.7	12.6	9.9		356	-13	-9	-2	11

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

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