



- Fed's “hawkish cut” surprises markets ([link](#))
- Japanese yen weakens after BoJ kept rates unchanged ([link](#))
- BoE keeps policy rates on hold as expected with a dovish vote split ([link](#))
- Norges Bank keeps rates on hold and signals a March reduction ([link](#))
- Brazil's market turmoil deepens amid fiscal concerns ([link](#))
- Chinese LGFVs issued a record amount of high-yield offshore bonds in 2024 ([link](#))

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Hawkish Fed dampens year-end rally hopes

Equity markets decline and sovereign yields increase after Fed signals fewer rate cuts in 2025. While delivering a widely expected 25bps rate cut, hawkish signals from the FOMC's monetary policy meeting yesterday prompted a sharp sell-off in US Treasuries with markets seeing a sizeable repricing in Fed rate cut expectations. With the dot plot penciling in 50bps of rate cuts next year—less than the 75bps expected by consensus—equity markets globally have also taken a step lower. The dollar rallied against major currencies following the FOMC meeting, but took a breather in European trade this morning, with the VIX Index also retracing while European sovereign bond yields continued to edge higher. Also on the central bank front, the Bank of Japan, the Bank of England and Norges bank left rates unchanged at their respective policy meetings, as expected, while the Riksbank delivered a widely-anticipated 25bps rate cut. Elsewhere, the sell-off in Brazilian markets deepened yesterday amid ongoing fiscal concerns combined with rising inflation expectations and political pressures. After depreciating sharply yesterday, the Brazilian Real appreciated by around 2% against the dollar in early morning trade after the central bank called its second spot US dollar auction today. In the meantime, Romania's local currency bond yields continued to increase amid domestic political uncertainty.

Programming Note: The Global Markets Monitor is going on its holiday break on December 23, 2024, and will return on January 13, 2025.

Key Global Financial Indicators

Last updated: 12/19/24 1:04 PM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5872	-2.9	-3	-1	23	23
Eurostoxx 50		4894	-1.3	-1	3	8	8
Nikkei 225		38814	-0.7	-3	1	15	16
MSCI EM		42	-2.3	-5	-3	4	4
Yields and Spreads			bps				
US 10y Yield		4.53	1.6	20	13	60	65
Germany 10y Yield		2.29	4.3	8	-5	27	26
EMBIG Sovereign Spread		319	-8	-2	-18	-66	-64
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		43.2	0.0	-1	-3	-10	-10
Dollar index, (+) = \$ appreciation		108.0	-0.1	1	2	6	7
Brent Crude Oil (\$/barrel)		73.1	-0.4	0	0	-8	-5
VIX Index (% change in pp)		20.6	-7.0	7	4	8	8

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

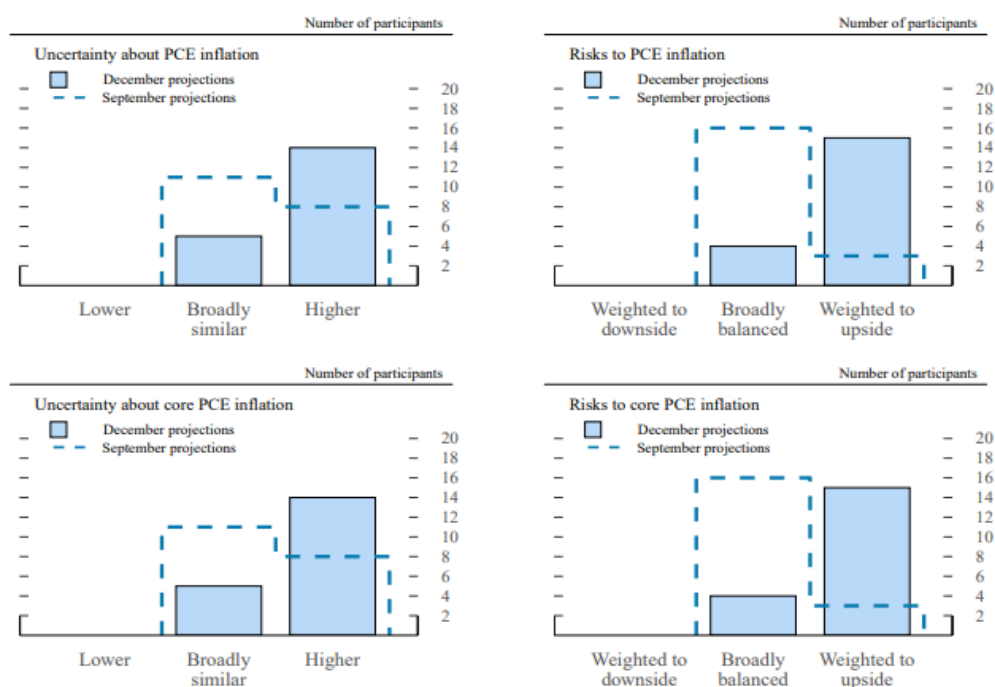
Mature Markets

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United States

The Fed cut the Fed Funds rate by 25bps, as widely anticipated, with hawkish signals including fewer predicted rate cuts for 2025 than had been expected. The Federal Open Market Committee voted 11–1 to cut the rate to a 4.25–4.5% range, with Cleveland Fed Hammack preferring no cut. The Summary of Economic Projections showed the Fed anticipates only 50bps of easing in 2025, compared to 100bps of easing that had been predicted in September. Moreover, the median estimate of the longer-run policy rate, akin to the concept of a neutral policy rate, was increased to 3.0% (from 2.9% previously) while the committee members also noted more uncertainty about inflation than in September, with risk tilted to the upside. These 'hawkish' signals from the Fed surprised markets, as most analysts had expected the median estimate would point to three cuts, or 75bps, next year. US Treasury yields jumped by 10bps following headlines, and the US dollar strengthened against major currencies. Investor risk appetite was also dampened, with equity indices lower across the Americas. Losses were particularly pronounced in small caps, with the Russell 2000 down 4.4%, while from a sectoral perspective consumer discretionary and real estate were underperformers. The VIX Index surged to the highest level since early August, while high yield corporate bond spreads widened to a post-election high, and Bitcoin retreated from a record high.

FOMC participants' assessments of uncertainty and risks around their economic projections



Source: The Federal Reserve

Euro Area

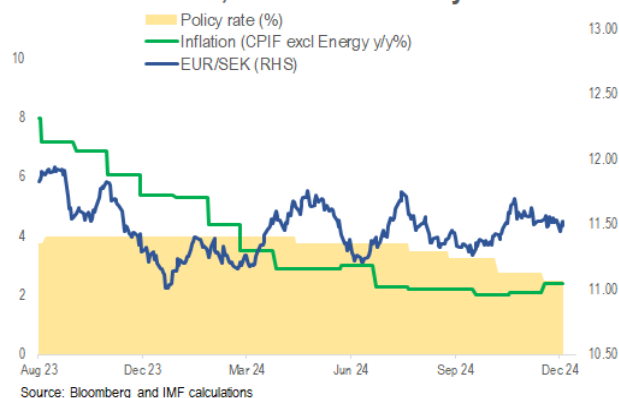
European equities declined while sovereign bond yields increased this morning following yesterday's hawkish surprise from the FOMC. The Stoxx 600 index was -1.3% lower, with all sectors trading in the red. European government bond yields were higher across all tenors, with the 10-year bund yield (+4bps) trading at around 2.28%. The 10-year French OAT-Bund spread was a touch wider at around 82bps, while the 10Y Italian BTP-Bund spread was around 3bps wider to trade at 119bps. Meanwhile, the euro strengthened (+0.6%) against the dollar to trade at around 1.04. On the data front, business sentiment in France deteriorated again in December, falling by two points to 94, versus 96 expected registering the third consecutive month of decline. Analysts at ING suggest that political uncertainty in France appears to

be weighing on the business climate and outlook. Elsewhere, the French Senate approved a stopgap bill to keep the government functioning from January until a budget for 2025 is implemented.

Sweden

Riksbank delivers 25bps rate cut, in line with expectations. The Riksbank cut its policy rate by 25bps to a two-year low of 2.5% and said it would “carefully evaluate the need for further reductions”. Today’s decision marks the fifth interest rate reduction by the Riksbank as it looks to revive economic growth in Sweden. Accompanying guidance suggests that rates may be cut once again in the first half of 2025, which was slightly more hawkish relative to consensus and market expectations, while the terminal rate was unchanged at 2.25%. GDP growth projections for 2025 and 2026 were broadly unchanged relative to September forecasts, although core inflation is projected to be 0.2ppts higher in 2025 at 2.2%y/y. **Immediately following the announcement, the Swedish krona advanced (+0.2%) against the euro to trade at 11.49/€.**

Sweden: Inflation, Yields and Currency

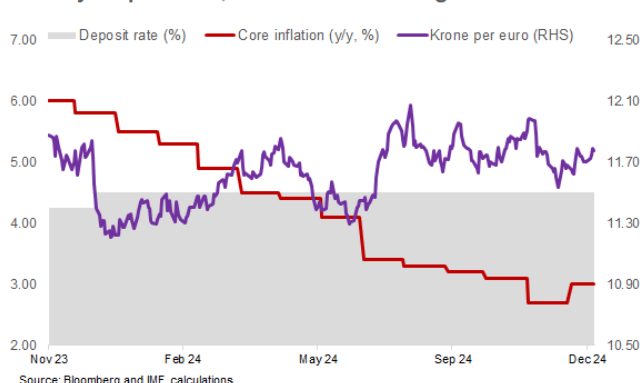


Norway

Norges Bank keeps rates on hold, as expected, but guides towards a March reduction. As expected, the Norges Bank kept its policy rate unchanged at a 16-year high of 4.5% whilst signaling that could likely lower borrowing costs in March 2025. The accompanying statement noted that “activity in the economy appears to be holding up better than previously projected, while inflation pressures appear to have been slightly more subdued than previously assumed”. Recent data outturns have resulted in upward revisions to economic growth with the rate of inflation broadly in line with the central bank’s projections, although the trade-weighted krone exchange rate remains below the Norges Bank’s estimate.

Following the decision, the Norwegian krone rose 0.3% against the euro to trade at around 11.76/€, although the currency is around 4.5% weaker against the common currency YTD, on the back of lower oil prices and heightened geopolitical uncertainty.

Norway: Deposit rate, inflation and exchange rate



United Kingdom

The BoE kept policy rates on hold at 4.75% as widely anticipated, with a more dovish than expected 6–3 vote split. External MPC members Swati Dhingra and Alan Taylor were joined by Deputy Governor Dave Ramsden to favor a 25bps rate cut at this meeting. Prior to today’s decision, money markets had pared back rate cut expectations with only a 50% probability assigned to a cut in February, down from 77% a week ago and around 80% at the start of the week as an upside surprise in wage growth data added to concerns of inflation persistence. The accompanying statement to today’s decision reiterated recent commentary favoring a gradual approach to easing stating that “monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning to the 2% target in the medium term have dissipated further”. There was no additional guidance as to the timing or pace of rate cuts in 2025.

Immediately following the announcement, the pound pared earlier gains against the dollar to trade (+0.2%) at 1.2604 while 10-year gilt yields reversed earlier moves to edge around 2bps higher to 4.58%.

Japan

The Japanese yen weakened after the Bank of Japan (BoJ) left its benchmark rate unchanged at 0.25%, as expected. Market participants had anticipated a more hawkish stance from BoJ Governor Ueda, but his emphasis on waiting for further data on wages and US policies reduced immediate rate hike expectations. Analysts suggest that Ueda's cautious tone indicates a longer timeline for potential rate hikes, possibly delaying them beyond January, which increases pressure on the yen. Ueda also pointed to the slow inflationary trend to justify the BoJ's gradual rate hike decisions, and noted uncertainty regarding the policies of US President-elect Trump's policies. Economists, however, warn that waiting for full clarity on US policies, especially given Trump's unpredictability, could cause the BoJ to miss the opportunity for timely action, while FX strategists caution that the yen could be more vulnerable if the BOJ holds rates until March or later. The yen weakened past the key level of 155 against the dollar in the morning session, and depreciated further to over 156 after Governor Ueda's press conference in the afternoon, closing with a 1.4% drop against the dollar. Today, the stock market declined (NIKKEI 225: -0.7%) following the BOJ's pause and the Fed's hawkish stance.



Emerging Markets

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EMEA equities traded mostly lower this morning, while currencies were mixed. Equities in Romania were underperforming (-1.8%), while yields on Romanian government bonds continued to edge higher this morning, with the 10y yield at 7.41% (+11bps today) amid continued political uncertainty. The Czech koruna was little changed against the euro at 25.10/€, as the Czech National Bank kept its policy rate on hold at 4%, in line with expectations. The Turkish lira was broadly unchanged against the dollar at 35.07/\$, while the South African rand gained this morning against the dollar (+0.5%) to trade at 18.24/\$.

Asian stocks declined while currencies were mostly weaker against the dollar. Equity declines (EM Asia: -1.3%) were led by Indonesia (-2.1%) and Korea (-2.0%). Asian currencies broadly depreciated (EM Asia: -0.4%) against the dollar, led by the Indonesian rupiah (-1.3%) and the Korean won (-0.9%). **FX strategists suggest that Asian currencies are struggling against the strengthening dollar, prompting regional central banks to defend their currencies against depreciation and maintain orderly FX markets.** Today, the Bangko Sentral ng Pilipinas cut its policy rate by 25bps to 5.75%, as expected, and lifted its risk-adjusted inflation forecast for next year by 0.1ppts to 3.4%.

Yesterday, Latin American equities declined and currencies weakened, pressured by the Fed's hawkish rate outlook. Equities underperformed in Brazil (-3.2%), and were also lower in Mexico (-0.9%),

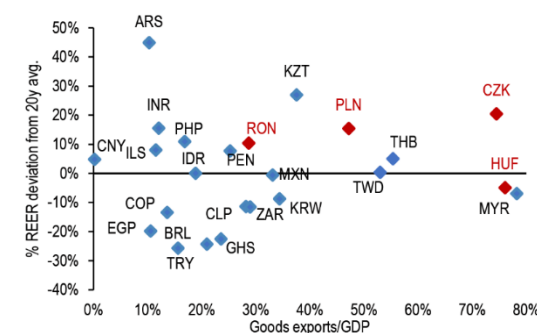
and Colombia (-0.5%), while those in Chile remained flat. Currency moves were led by the Brazilian real (-2.9%), Mexican peso (-0.9%), Colombian peso (-0.6%), and Chilean peso. Turmoil originating from Brazil's real drove its equity index lower, 5yr CDS up (+31bps), and prompted the BCB to hold another dollar spot auction (\$3bn) for Thursday morning. Separately, S&P reported that average Latin American credit quality is at its highest since 2017, with record-high positive outlooks since 2011. Citi's bi-weekly survey raised Mexico's 2025 year-end policy rate forecast by 50bps to 8.50%.

Central European Currencies

Currencies in Central Europe are highly vulnerable if global tariffs are imposed by the US, according to analysis by JP Morgan. These countries have very open economies and currencies that are very overvalued, according to the analysts, making the impact of tariffs more severe. Industrial production in these countries has been weak this year, and foreign direct investment (FDI) flows to the region have dried up. They are also highly reliant on exports to grow their economies. External shocks from tariffs will force their central banks to cut rates and weaken their currencies. The currencies of the Czechia and Hungary have already depreciated against the euro this year, a trend that appears likely to continue if tariffs are imposed.

Figure 58: Indirect exposure likely highest for open economies with expensive exchange rates

Based on 2023 annual data for trade and latest J.P.Morgan CPI-based REERs



Source: J.P.Morgan, Haver Analytics

Brazil

Ongoing fiscal concerns combined with rising inflation expectations and political pressures have seen a selloff of the Brazilian real (-2.9%) with spillovers from investor pessimism reaching equities (-3.2%), 5yr CDS (+31bps), and hard currency sovereigns (10yr +31bps) on Wednesday. The Central Bank of Brazil (BCB) announced an additional \$3bn dollar spot auction Thursday morning to dampen losses, after selling \$5.8bn so far this month and offering \$7bn through buyback commitments. Finance Minister Fernando Haddad went so far as to say the Brazilian real may be facing a “speculative attack”. The Brazilian real extended losses by as much as -1.3% following Haddad's comments. Rising long-term inflation expectations have raised implied policy rates for end-2025-end to around 17%. However, without reducing fiscal expenditures, tight monetary policy may worsen deficits. So far this year the Brazilian real has depreciated by roughly -23% against the dollar while the benchmark IBOV equity index is roughly -10% lower.

Brazilian real and San Paulo Exchange Selloff



Source: Bloomberg Finance L.P. and IMF staff.

Brazilian 5yr CDS surpasses Panama

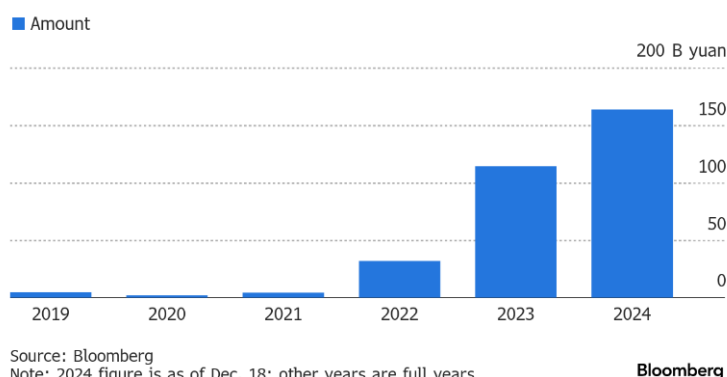


Source: Bloomberg Finance L.P. and IMF staff.

China

Chinese local government financial vehicles (LGFVs) raised a record 163.6 bn yuan (\$22.5 bn) through offshore yuan bonds (dim sum notes) in 2024, the highest since 1993, based on Bloomberg data. Dim sum bonds have gained popularity due to their higher yields compared to onshore bonds, with LGFVs making up about 40% of total corporate dim sum bond issuance this year. The average coupon for these bonds rose to 5.8%, a four-year high and more than double the rates for onshore LGFV bonds. Analysts attribute the increase in offshore LGFV issuance to tight onshore restrictions on new debt, especially for weaker LGFVs, and regulatory loopholes that make offshore issuance less restricted. They noted that much of the offshore issuance is aimed at refinancing existing debts, while maintaining a presence in global markets is crucial for LGFVs to access diverse funding sources. However, China recently banned domestic investors from purchasing LGFV dim sum bonds through the Bond Connect program, which links mainland and Hong Kong debt markets, to mitigate risks in the heavily indebted sector, with no clear timeline for lifting the ban. Today, the PBOC set the RMB fixing at 7.1911 per dollar, 1,232 pips stronger than expected, the widest since July, supporting the yuan's rebound to end flat (-0.2%) after an earlier slide post-Fed meeting. The stock market remained stable onshore (CSI 300: +0.1%) but declined offshore (HSI: -0.6%).

LGFVs Issue Record Amount of Dim Sum Bonds in 2024



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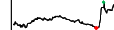
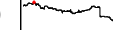







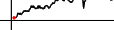

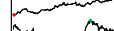













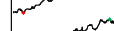






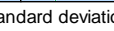


Global Financial Indicators

12/19/24 1:06 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,901	-2.9	-2.5	-0.3	23.8	24
Europe		4,894	-1.3	-1.4	3.0	7.9	8
Japan		38,814	-0.7	-2.6	1.2	15.3	16
China		3,945	0.1	-2.1	-1.0	19.7	15
Asia Ex Japan		72	-2.1	-4.5	-3.0	8.7	8
Emerging Markets		42	-2.3	-5.1	-3.3	4.1	4
Interest Rates			basis points				
US 10y Yield		4.5	2	20	13	60	65
Germany 10y Yield		2.3	4	8	-5	27	26
Japan 10y Yield		1.1	0	3	1	45	46
UK 10y Yield		4.6	3	23	15	94	105
Credit Spreads			basis points				
US Investment Grade		118	2	2	0	-16	-15
US High Yield		314	4	8	3	-71	-71
Exchange Rates			%				
USD/Majors		108.0	0.0	1.0	1.7	5.7	7
EUR/USD		1.04	0.3	-0.8	-2.0	-5.4	-6
USD/JPY		156.8	1.3	2.8	1.4	9.0	11
EM/USD		43.2	0.0	-1.3	-2.6	-10.4	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		73.1	-0.4	-0.5	0.1	-5.5	-2
Industrials Metals (index)		140.3	-1.2	-3.8	-3.1	0.2	-2
Agriculture (index)		55.8	0.1	-2.5	-1.3	-12.8	-11
Implied Volatility			%				
VIX Index (%, change in pp)		20.7	-6.9	6.8	4.3	8.2	8.2
Global FX Volatility		8.8	0.0	0.2	0.2	1.0	0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		86	2	3	1	-27	-17
Italy		117	1	2	-5	-45	-51
France		80	0	2	7	30	27
Spain		70	0	2	-1	-25	-27

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

Emerging Market Financial Indicators

Last updated: 12/19/2024 1:14 PM	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		7.30	-0.2	-0.4	-0.8	-2.5	-2.7		1.8	2	-6	-28	-91	-84
Indonesia		16290	-1.2	-2.2	-2.8	-4.8	-5.5		7.0	0	6	16	38	47
India		85	-0.1	-0.2	-0.8	-2.2	-2.2		7.3	8	23	2	14	5
Philippines		59	0.0	-1.3	-0.3	-5.2	-6.1							
Thailand		35	-0.8	-2.0	0.2	1.3	-1.2		2.3	-3	-3	-18	-54	-46
Malaysia		4.51	-0.8	-1.5	-0.7	3.8	2.0		3.9	4	5	0	11	12
Argentina		1022	0.0	-0.4	-2.0	-21.5	-20.9		28.0	-80	-115	-28	-5363	-5834
Brazil		6.29	0.0	-4.7	-8.2	-22.7	-22.8		15.7	47	143	238	556	569
Chile		997	-0.7	-1.8	-2.6	-13.6	-11.9		5.4	0	13	-3	10	12
Colombia		4398	-0.6	-1.2	-0.1	-10.5	-12.4		11.3	-1	34	68	121	146
Mexico		20.32	0.2	-0.5	-1.1	-16.0	-16.5		10.1	1	12	13	90	102
Peru		3.7	0.2	-0.2	1.7	0.1	-0.8		6.7	1	11	-6	-14	-1
Uruguay		45	-0.4	-0.8	-4.9	-12.2	-13.3		9.6	0	3	14	0	7
Hungary		400	-0.2	-2.3	-3.7	-12.5	-13.2		6.3	-3	17	-18	33	39
Poland		4.09	0.8	-0.1	0.1	-3.7	-3.7		5.5	-4	14	12	63	50
Romania		4.8	0.4	-0.8	-1.9	-5.4	-5.8		7.2	8	17	30	85	98
Russia		103.5	1.1	1.6	-2.9	-12.5	-13.5							
South Africa		18.3	0.2	-2.8	-1.4	0.1	0.3		10.4	5	10	-4	-71	-83
Türkiye		35.07	-0.1	-0.5	-1.7	-17.0	-15.8		30.7	16	-8	-17	542	451
US (DXY; 5y UST)		108	0.0	1.0	1.7	5.7	6.6		4.40	0	22	14	47	55

	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		3,945	0.1	-2.1	-1.0	19.7	15.0		92	-7	-8	-63	-66	
Indonesia		6,977	-1.8	-5.6	-2.8	-3.4	-4.1		82	-10	-11	-14	-14	
India		79,218	-1.2	-2.5	2.1	12.4	9.7		71	-14	-7	-40	-45	
Philippines		6,396	-1.1	-3.7	-8.3	-1.9	-0.8		70	-10	-13	-8	-10	
Thailand		1,378	-1.5	-4.3	-5.8	-1.6	-2.7							
Malaysia		1,600	0.0	-0.1	0.1	9.3	10.0		60	-11	-4	-22	-25	
Argentina		2,521,017	-2.7	10.0	18.7	175.7	171.2		655	-72	-127	-1195	-1258	
Brazil		120,772	-3.1	-4.2	-5.8	-8.4	-10.0		254	34	37	41	39	
Chile		6,692	-0.6	-1.3	2.2	10.4	8.0		110	-2	-6	-17	-15	
Colombia		1,360	-0.5	-1.8	-0.7	16.3	13.8		311	-2	-16	16	40	
Mexico		49,968	-0.9	-2.7	-0.5	-13.4	-12.9		306	6	0	-38	-28	
Peru		29,143	-1.2	-3.5	-4.9	15.0	12.3		138	6	-7	-9	-6	
Hungary		78,985	-0.3	-1.9	1.3	29.8	30.3		138	-6	-12	-13	-11	
Poland		80,054	-0.2	-2.0	3.7	1.7	2.0		98	-8	-13	3	1	
Romania		16,500	-1.6	-5.1	-3.8	6.2	7.3		217	7	7	13	16	
South Africa		84,759	-1.0	-2.7	0.3	13.2	10.2		273	-3	-14	-46	-35	
Türkiye		9,876	-0.4	-1.8	7.0	27.8	32.2		240	-13	-15	-68	-74	
EM total		42	-0.2	-5.1	-3.3	4.1	4.4		355	-1	-21	9	10	

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

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