



- Markets nervous about potential US tariffs ([link](#))
- US markets forecast terminal policy rate at 3.6% by end of 2025 ([link](#))
- China 10-year government bond yield falls to record low below 2% ([link](#))
- Interest rates in Japan surge on hawkish comments from BOJ governor ([link](#))
- French government offers fresh concessions to forestall “no-confidence” vote ([link](#))
- Brazilian real near all-time low versus dollar ([link](#))

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Global markets grapple with multiple challenges

Uncertainty prevails as the Biden administration announced new restrictions on China’s access to advanced computer technology and President-Elect Trump threatened 100% tariffs on the BRICS countries if they pursued alternatives to the US dollar. However, European markets were mostly higher after a day of solid gains in Asia, although US equity futures were marginally weaker after the S&P 500 set yet another record on Friday. Japan remains in focus after hawkish comments from the BOJ governor pushed interest rates higher on expectations of rate hikes. Dollar strength remains a notable feature of the financial landscape as emerging market currencies weaken further ahead of the new administration in the US and the euro continues to weaken amidst fears that the French government could fall. Market participants are also worried about Germany, where weakness among industrial companies has led to layoffs and the threat of strikes. The 10-year China government bond yield declined to a record low.

Key Global Financial Indicators

Last updated: 12/2/24 7:51 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6032	0.6	1	5	31	26
Eurostoxx 50		4832	0.6	1	-1	9	7
Nikkei 225		38513	0.8	-1	1	15	15
MSCI EM		43	0.2	0	-3	9	8
Yields and Spreads			bps				
US 10y Yield		4.20	2.9	-8	-19	0	32
Germany 10y Yield		2.04	-4.6	-17	-36	-32	2
EMBIG Sovereign Spread		336	2	7	-3	-75	-48
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		43.5	-0.4	-1	-2	-9	-10
Dollar index, (+) = \$ appreciation		106.2	0.5	-1	2	3	5
Brent Crude Oil (\$/barrel)		72.7	1.2	0	-1	-8	-6
VIX Index (% change in pp)		14.0	0.5	-1	-8	1	2

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

The highlight of the coming week is Friday’s US jobs report, with the consensus forecast of 200K new jobs added and a slight increase in the unemployment rate to from 4.1% to 4.2%. Data on durable goods orders and PMIs are also due to be released. In the euro area, the latest CPI and PPI reports will be

in focus, as well as PMI reports. China, India, the UK, and Japan are also scheduled to release PMI data this week. This week's central bank meetings include Poland (Wednesday, expected to stay on hold at 5.75%) and India (Thursday, expected to stay on hold at 6.5%).

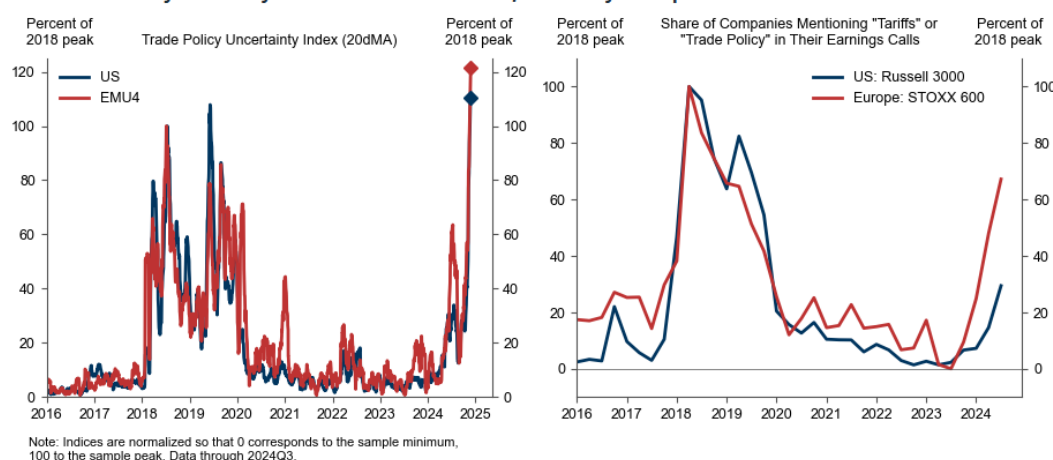
Mature Markets

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United States

Markets are nervous about the impact of tariffs under the incoming US administration. Last week saw heightened volatility in foreign exchange and government bond markets after President-Elect Trump said he would impose 25% tariffs on imports from Mexico and Canada and a further 10% on imports from China on day one of his administration. The shares of car companies such as Stellantis, GM and Ford sold off on fears that tariffs would cause a sharp decline in car sales due to higher prices. Measures of trade policy uncertainty such as those based on Bloomberg searches already exceeded the levels seen during the US-China tariff war of 2018–19. Tariffs and trade policy were increasingly cited as issues for companies during their earnings calls. The impact on Europe is expected to be especially severe. Past experience suggests that much of the impact of tariffs occurs before they are actually imposed due to expectations and uncertainty, and analysts are looking for signs of this to occur soon.

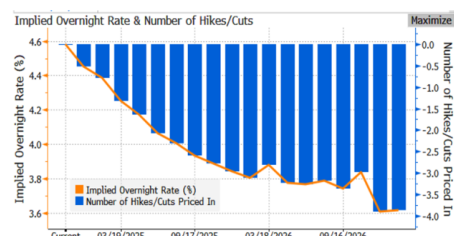
Exhibit 1: Trade Policy Uncertainty Has Risen in Advance of Tariffs, Particularly in Europe



The GS TPU indices count the number of articles on Bloomberg that contain key TPU words (including both trade-related words like "tariff" and uncertainty-related words like "risk"). We then scale the number of articles found by the total number of articles in the search. For further details, see Jari Stehn, "Tracking the Rise in Trade Policy Uncertainty Across Europe", European Daily, 31 July 2024

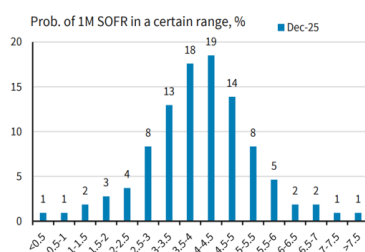
Source: Goldman Sachs Global Investment Research, Bloomberg, LSEG Data & Analytics, GS Data Tools

Markets are predicting that the Fed's policy rate will bottom out at 3.6% by December 2025, implying a little less than four more rate cuts. This is nearly 65bps higher than September, as better than expected economic data showed that the US economy remained stronger than originally forecast. The election result only reinforced this expectation, as investors think more expansionary government policies from the new administration and potential tariffs could lead to continued economic strength as well as higher inflation. This more hawkish view on rates is supported by pricing in the market for options on Secured Overnight Funding Rate (SOFR) futures. As analysts at Barclays point out, looking at year-end 2025 and year end 2026, the market assigns a 30–35% probability that the policy rate could be above 4.5% on those dates and just a 10–20% probability that the Fed Funds rate will be under 2.5%. The consensus forecast is that the Fed will remain on hold for some time after its last rate cut, but there is a small chance of a rate hike by the end of 2026.



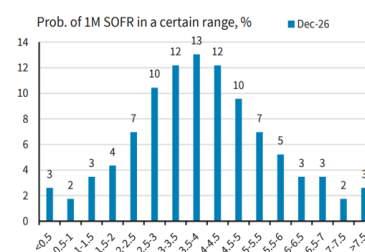
Source: Bloomberg

FIGURE 18. Markets are putting a lot of weight on the Fed being on hold for the next couple of years...



Source: Barclays Research

FIGURE 19.with some likelihood of a hike

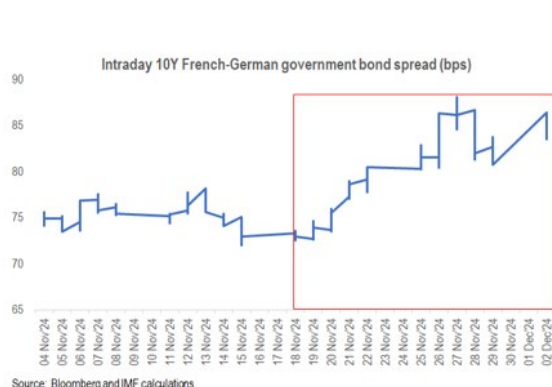


Source: Barclays Research

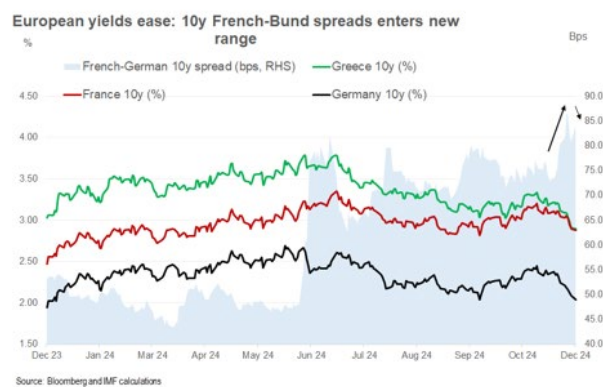
Euro Area

European government bond yields were mostly lower this morning with continued focus on domestic political developments in France. This morning 10-year bund yields (-5bps) were trading at around 2.04%—near the lowest level since early October—while 2-year bund yields were trading at 1.90% (-4bps). Meanwhile the 10-year French OAT yield fell to 2.86% on news that the government made new concessions. **Market have scaled up expectations of ECB rate cuts in 2025.** While pricing for a rate cut at next week's ECB meeting remains steady with around 30bps of easing expected (compared to 33bps last Monday), markets are now pricing in around 160bps of easing by October 2025 (compared to 143bps a week ago). Elsewhere, European equities as measured by the Stoxx 600, were trading marginally higher, while **the euro was around 0.5% weaker against the dollar to trade at 1.0522.** The common currency is almost 5% weaker against the dollar YTD.

The French-German 10-year yield declined this morning. The government has just announced new concessions in the hopes of avoiding a “no-confidence” vote, saying that it will not reduce reimbursements for medicines. However, it has not said anything about pension indexation, the other key demand from Marine Le Pen, the leader of the opposition National Rally (RN) party. The 10-year OAT-Bund yield spread ballooned to 87bps last week and remains elevated at 82bps. Some contacts think the spread could hit 100bps if the crisis continues. For now, broader indicators of contagion or signs of fragmentation risk such as the spread between the 2014 and 2003 CDS premia for France (the ISDA-basis) suggest that the developments continue to be viewed as idiosyncratic. Separately, on Friday **S&P left France's rating and outlook unchanged at AA-, with a stable outlook.** The agency noted that its base case is that French authorities will undertake a consolidation of the budget of just under 1% of GDP next year as part of a longer-term plan to bring the deficit under control. That said, the agency noted it may lower the rating if this proved impossible or if growth disappointed over a protracted period.



Source: Bloomberg and IMF calculations



Source: Bloomberg and IMF calculations

Japan

Japan's government bond yields increased after Bank of Japan (BoJ) Governor Ueda indicated that interest rate hikes may be coming as economic trends align with the central bank's forecasts. Ueda also stated in a Nikkei interview that the weakening yen may require "countermeasures" from the BoJ. Following his remarks, the two-year yield reached its highest level since 2008, and the 10-year yield rose to 1.075%. The chance of a December rate hike, suggested by overnight indexed swap pricing, increased to 66%, with the probability rising to 90% by January. Intensified expectations of a BoJ rate hike fueled gains in interest-sensitive financial institution equities, with **the Topix banks index reaching its highest level since 2007**. Market sentiment was also lifted by the Japanese government proposing to raise the investment return target to 1.9 ppt above wage growth from 1.7 ppt for the nation's US\$1.7 tn Government Pension Investment Fund, potentially paving the way for increased stock purchases. The Nikkei 225 and Topix advanced by 0.8% and 1.3%, respectively. The yen depreciated as much as -0.6% before paring losses to -0.2%.



Emerging Markets

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EMEA equities and currencies were mixed this morning. In CEE, equities were in the green across the region and outperformed in Poland (1.8%), where the zloty advanced (0.2%) against the euro, trading at PLN 4.28/€ ahead of the MPC meeting on Wednesday, when the central bank is expected to hold its policy rate at 5.75%. **Asian currencies weakened** (EM Asia: -0.4%) after President-elect Trump threatened to impose a 100% tariff on BRICS member countries if they pursued alternatives to the US dollar. The Thai baht (-0.5%) led the depreciation, with traders assessing the impact of Thailand's worst floods in decades. The Indian rupee softened to its weakest level against the US dollar (-0.2% to 84.7) after data showed a sharp slowdown in Q3 GDP growth. **Most Asian equities advanced** (EM Asia: +1.1%), supported by better-than-expected manufacturing PMI data from China and a tech stock rally. Taiwan POC equities outperformed (+2.1%). **Latin American markets were quiet last Friday.** Stocks declined in Mexico (-0.3%), Colombia (-0.4%), and Peru (-0.7%), while Brazil's equity market rose by 0.9%. Currencies appreciated in Brazil (+0.7%), Mexico (+0.3%), and Chile (+0.3%), while the Colombian peso and the Peruvian sol both weakened 0.4% against the US dollar.

Emerging Market Bond and Equity Flows

Emerging Markets bond funds outflows continued last week (-\$2.7bn, from -\$2.5bn). Outflows were led by hard currency fund outflows (-\$2.2bn, from -\$1.5bn), while local currency fund outflows decreased (-\$492mn, from -\$1.1bn). Bond ETFs turned to inflows (+\$1mn, from -\$894mn) and non-ETFs outflows increased (-\$2.7bn, from -\$1.6bn). EM equity funds outflows decreased significantly (-\$4.3bn, from -\$6.6bn). Equity ETFs saw decreased outflows (-\$2bn, from -\$4.2bn). Non-ETFs outflows also decreased (-\$2.3bn, from -\$2.5bn). Across regional equity funds, there were outflows in Asia ex-Japan (-\$2.7bn), Latam (-\$59mn), and EMEA (-\$116mn). The year-to-date flows currently stand at -\$24.7bn and -\$23.8bn for bonds and equities, respectively.

Figure 1: Weekly cross-asset flows

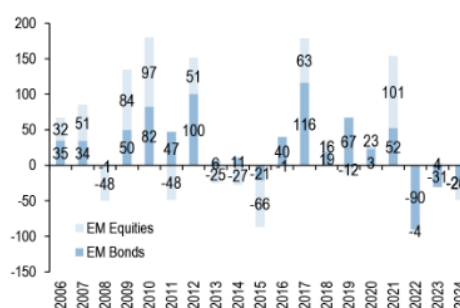
USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-7.1	-48.5
EM Bonds		-2.7	-24.7
Hard Ccy		-2.2	-15.1
Local Ccy*		-0.5	-9.6
o.w. EM ex-China		-0.4	-10.2
o.w. China		-0.1	-1.9
EM Equities		-4.3	-23.8
US HG		5.7	352.5
US HY		-0.2	28.0
Global Equities		27.4	250.7
EM Bond and Equity ETFs		-2.0	21.0
EM Bond ETFs		0.0	-3.8
EM Equity ETFs		-2.0	24.8
Non-resident EM flows*		-1.6	-23.0

*High-frequency non-resident EM portfolio flow data where available. *Local ccy split is retail only. Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.

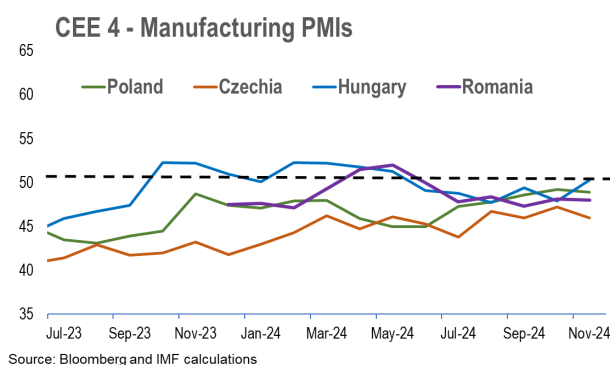
Figure 2: EM bond and equity fund flows

USD billion

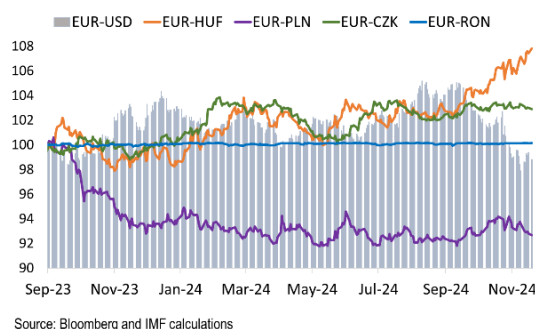


CEE4 Currencies

CEE currencies continued to diverge this morning with Hungarian forint edging down (-0.4%) to a new record low against the euro of HUF 414.47/€, while the Polish zloty and the Czech koruna made marginal gains. The forint has weakened by 4.3% against the euro QTD (and is -8% YTD), the worst performance among CEE currencies, and was subject to new pressure this morning as Moody's its outlook on Hungary from stable to negative last Friday, on due to worries about lack of access to EU funds, weak export growth and an increasing fiscal deficit ahead of the 2026 elections, while affirming the credit rating of Hungary at Baa2, its second lowest investment-grade rating level. **Today's data showed that November manufacturing PMIs mostly disappointed across CEE while the PMI index surprised to the upside in Hungary.**



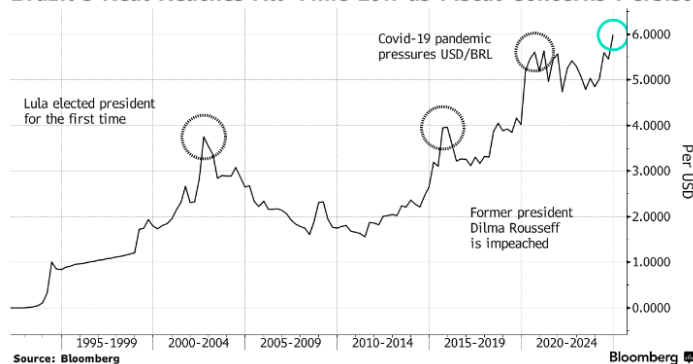
CEE 4 Currencies, September 2023 = 100



Brazil

The Brazilian real fell as much as 1.5% to a record low last Thursday, as investors were disappointed over a proposed \$12 billion public spending cut. The Brazilian real has depreciated more than 19% this year, the worst performance among major currencies. Interest rate expectations rose sharply, with projections for the Selic rate to reach 15% by next year. Finance Minister Fernando Haddad outlined measures such as limiting public worker salary increases and raising taxes on high earners. However, skepticism persisted, as analysts viewed the plan as insufficient. The selloff intensified amid global pressures on emerging markets following the U.S. election, but Brazil's losses stood out, with its currency and stock index performing worse than most emerging markets.

Brazil's Real Reaches All-Time Low as Fiscal Concerns Persist



China

The yield on 10-year Chinese government bonds (CGB) fell to a record low below the key psychological level of 2%, hitting a record low on expectations of lower money market rates due to guidance from the authorities and expectations of a reserve-requirement ratio cut and increased liquidity support and net purchases of sovereign bonds from the PBOC, and continued weak economic fundamentals. Previous concerns about supply pressure have eased after special bonds issued by local governments to replace hidden debts were smoothly absorbed in the primary market. With hopes of continued monetary easing, analysts generally believe that the bond market will remain strong next year, with some predicting that the 10-year yield could fall to 1.6%. **Chinese equities gained** (CSI 300: +0.8%), supported by an upside surprise from a factory activity gauge. The November Caixin PMI (51.5, expected: 50.6, previous: 50.3) indicates solid near-term manufacturing output amid front-loading of export orders ahead of a potential tariff increase. **The RMB depreciated** (-0.4%) as dollar strength continued against most major currencies.






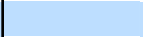


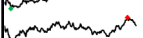
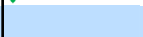









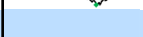





China's 10-Year Yield Sinks on Easing Bets, Fragile Growth



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Global Financial Indicators

12/2/24 7:54 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,032	0.6	1.4	5.3	31.3	26
Europe		4,832	0.6	0.7	-0.9	9.4	7
Japan		38,513	0.8	-0.7	1.2	15.2	15
China		3,948	0.8	2.6	1.5	13.3	15
Asia Ex Japan		74	0.3	0.1	-2.8	13.1	11
Emerging Markets		43	0.2	0.0	-2.8	8.9	8
Interest Rates			basis points				
US 10y Yield		4.2	3	-8	-19	0	32
Germany 10y Yield		2.0	-5	-17	-36	-32	2
Japan 10y Yield		1.1	3	0	13	38	47
UK 10y Yield		4.2	-2	-12	-22	8	68
Credit Spreads			basis points				
US Investment Grade		117	-2	-3	-8	-25	-17
US High Yield		311	1	7	-26	-110	-74
Exchange Rates			%				
USD/Majors		106.2	0.5	-1.2	1.9	2.9	5
EUR/USD		1.1	-0.5	0.3	-3.3	-2.9	-5
USD/JPY		150.0	0.2	-2.7	-1.4	1.9	6
EM/USD		43.5	-0.4	-0.6	-2.4	-9.5	-10
Commodities			%				
Brent Crude Oil (\$/barrel)		72.7	1.2	0.3	0.0	-4.3	-2
Industrials Metals (index)		144.6	-0.4	0.3	-2.5	3.5	1
Agriculture (index)		56.1	-0.7	-0.4	1.0	-13.5	-10
Implied Volatility			%				
VIX Index (% change in pp)		14.0	0.5	-1.2	-7.9	1.4	1.6
Global FX Volatility		8.9	0.1	0.2	-0.3	1.3	0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		85	2	-3	-6	-38	-19
Italy		119	1	-7	-9	-55	-48
Portugal		46	1	-2	1	-19	-17
Spain		71	1	-2	-1	-29	-26

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

Emerging Market Financial Indicators

Last updated: 12/2/2024 7:58 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		7.27	-0.4	-0.4	-2.4	-1.8	-2.4		1.8	-5	-7	-21	-94	-76
Indonesia		15906	-0.4	-0.2	-1.0	-2.8	-3.2		6.9	1	-3	10	26	40
India		85	-0.2	-0.5	-0.7	-1.6	-1.8		7.0	-12	-20	-22	-40	-19
Philippines		59	-0.1	0.5	-0.6	-5.7	-5.6		5.0	1	1	4	-93	-66
Thailand		34	-0.5	0.5	-2.1	2.3	-0.6		2.1	-5	-21	-31	-80	-57
Malaysia		4.46	-0.3	-0.1	-1.9	4.4	3.0		3.8	0	0	-12	-2	7
Argentina		1010	-0.1	-0.6	-2.2	-64.4	-20.0		29.6	68	118	-635	-6876	-5682
Brazil		6.03	-1.0	-3.6	-4.1	-18.0	-19.5		13.3	-6	58	53	227	288
Chile		978	-0.5	-0.1	-2.4	-11.0	-9.9		5.1	0	-13	-6	5	18
Colombia		4433	-0.4	-0.4	-0.9	-10.0	-12.6		8.3	-2	3	-46	17	64
Mexico		20.53	-0.8	-1.1	-2.1	-15.0	-17.3		9.2	-7	-15	-30	45	73
Peru		3.8	-0.4	0.8	0.3	-0.8	-1.5		6.6	0	-12	-24	-52	-12
Uruguay		43	-0.4	-1.3	-4.4	-9.4	-9.9		9.6	4	13	32	10	5
Hungary		395	-1.3	-1.3	-5.1	-11.2	-12.2		6.4	0	17	-33	-7	66
Poland		4.09	-0.6	0.5	-2.0	-2.2	-3.7		4.6	-4	-15	-45	-12	11
Romania		4.7	-0.8	0.0	-3.5	-3.3	-5.0		7.2	8	19	48	49	100
Russia		106.0	0.5	-2.0	-6.7	-14.0	-15.6							
South Africa		18.2	-0.8	-0.8	-3.7	3.3	0.9		8.5	2	-9	-41	-71	-64
Türkiye		34.72	0.0	-0.4	-1.1	-16.6	-14.9		29.4	22	-5	-116	190	269
US (DXY; 5y UST)		106	0.5	-1.2	1.9	2.9	4.9		4.09	4	-9	-14	-3	24

	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		3,948	0.8	2.6	1.5	13.3	15.1		98	-3	-11	-65	-60	
Indonesia		7,047	-0.9	-2.1	-6.1	-0.2	-3.1		102	9	11	-15	6	
India		80,248	0.6	0.2	0.7	18.9	11.1		82	4	-6	-41	-34	
Philippines		6,743	2.0	-1.6	-5.6	8.0	4.5		88	6	11	-8	8	
Thailand		1,437	0.7	-0.4	-1.8	4.1	1.5		0	0	0	0	0	
Malaysia		1,595	0.1	-0.1	-0.5	9.6	9.7		67	1	2	-21	-18	
Argentina		2,258,295	1.2	2.1	20.1	159.5	142.9		759	10	-178	-1269	-1154	
Brazil		125,668	0.9	-2.7	-1.9	-2.0	-6.3		222	21	17	4	7	
Chile		6,578	-0.2	0.4	0.4	11.7	6.1		120	6	9	-9	-5	
Colombia		1,392	-0.4	-0.5	2.9	20.9	16.5		328	13	9	26	57	
Mexico		49,813	-0.3	-1.2	-1.6	-7.6	-13.2		308	10	14	-43	-26	
Peru		29,485	-0.7	-2.6	-3.2	32.1	13.6		142	3	7	-4	-2	
Hungary		78,219	0.4	-1.6	5.9	34.8	29.0		167	15	14	-6	18	
Poland		81,034	2.1	1.8	1.9	6.2	3.3		118	7	9	8	21	
Romania		16,589	1.5	-2.3	-5.0	12.8	7.9		237	27	37	23	36	
South Africa		85,676	1.4	0.9	-0.6	13.2	11.4		289	12	6	-55	-19	
Türkiye		9,620	-0.3	-0.4	8.3	19.9	28.8		262	9	-8	-95	-52	
EM total		43	-0.2	0.0	-2.8	8.9	7.6		371	6	-11	-2	26	

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

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