GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, DECEMBER 20, 2024

LEAD EDITOR: ESTI KEMP

- **US Treasury yield curve reaches steepest level since mid-2022** (link)
- **Debate on deal to avoid a US government shutdown continues** (link)
- **Increased policy divergence between Europe and US expected to drive euro lower** (link)
- **Central Bank of Russia surprises by holding the policy rate unchanged** (link)
- **Brazil markets stabilized after largest FX intervention since 1999** (link)
- **Mexico's central bank cuts rates by 25bps, citing disinflation optimism** (link)
- **Special Feature: EM Local Currency Bond Holdings** (attached)

Mature Markets | Emerging Markets | Market Tables

No Holiday-lull for markets just yet

Markets continue to digest the Fed's hawkish signals while focus shifts to a looming US government shutdown. Risk sentiment in markets remains dented with US equity futures trading in the red this morning amid prospects of a US government shutdown as a temporary funding plan was rejected by the House. European equities also followed Asian equities lower. With US inflation surprising marginally on the downside this morning, US Treasury yields are sharply lower—retracing some of the recent increases as markets continue to grapple with the hawkish signals from the Fed's latest policy meeting. In stark contrast to a year ago, the Treasury yield curve had steepened in the aftermath of the Fed meeting, as 10-year yields yesterday reached the highest level since May. Then in the UK, while the BoE yesterday struck a more dovish tone than expected, the 30-year gilt yield reached its highest level since 2002. Also, while the dollar is weakening this morning, the MSCI Emerging Market currency index is on track for its largest quarterly decline since 2022. In the meantime, Brazil's financial markets stabilized yesterday on the back of record central bank FX intervention. Elsewhere on the central bank front, Mexico cut its policy rate by 25bps yesterday, as expected, while Russia surprised markets this morning by keeping rates on hold.

Programming Note: The Global Markets Monitor is going on vacation and will return on January 13.

Key Global Financial Indicators

Last updated: 12/20/24 1:54 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5867	-0.1	-3	-1	25	23
Eurostoxx 50		4823	-1.1	-3	2	6	7
Nikkei 225		38702	-0.3	-2	1	17	16
MSCI EM		42	0.3	-4	-3	8	5
Yields and Spreads					bps		
US 10y Yield		4.50	-6.2	10	9	65	62
Germany 10y Yield		2.28	-2.8	2	-7	31	25
EMBIG Sovereign Spread		331	11	11	-3	-53	-53
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		43.4	0.4	-1	-2	-10	-10
Dollar index, (+) = $ appreciation		107.9	-0.4	1	1	5	7
Brent Crude Oil ($/barrel)		72.5	-0.5	-3	0	-9	-6
VIX Index (%, change in pp)		24.0	-0.1	10	7	10	12

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

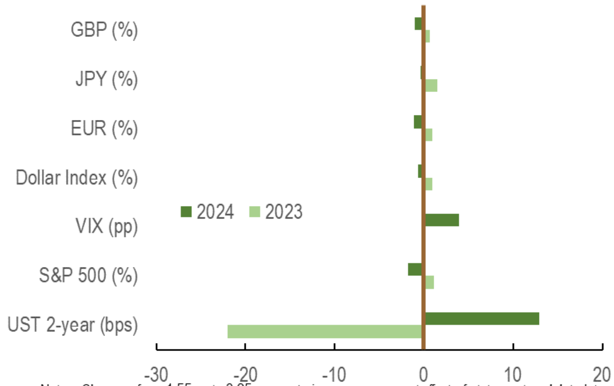
Mature Markets

back to top

United States

The US Treasury yield curve steepened as investors digested the "hawkish cut" yesterday by the Fed: The 2-to-10-year US Treasury spread widened by 10bps, reaching a level last seen in mid-2022. The market reaction to the Fed's latest meeting is in stark contrast to the market rection seen in December 2023, when a dovish surprised from the Fed saw a rally in in equities and a flattening of the Treasury curve. Yesterday, the 5-year Treasury inflation protected securities auction attracted weak demand from investors. Contacts see this result could portend weakness at next week's end-of-month nominal Treasury actions. On the data front, macroeconomic data released Thursday morning broadly underscore a resilient US economy: The third release of Q3GDP was revised up more than expected, and initial jobless claims fell back to their mid-November level, while the Philly Fed manufacturing index decreased by more than expected in December. US Equities finished the day almost unchanged while Bitcoin extended losses by 4%. **This morning, the November personal spending (+0.4%mom vs. +0.5% consensus) and PCE price index (+0.1%mom vs. +0.2% consensus) came in lower than expected**. Treasury yields decreased by 6–8bps from the previous close. The dollar weakened against JPY by 0.6%.

Market reaction to FOMC meetings: Hawkish Surprise in December 2024 Contrasts with The Dovish Surprise of A Year Ago



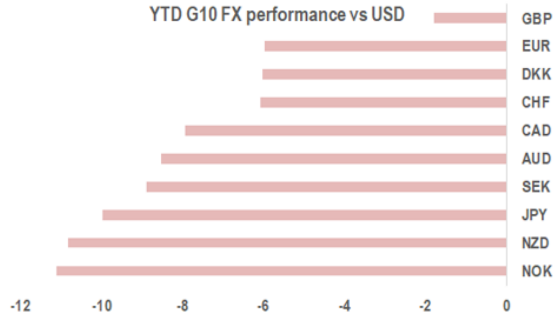
Notes: Changes from 1:55pm to 3:25pm, capturing announcement effect of statement and dot plot as well as press conference. Positive foreign currency returns imply weaker dollar, negative ones stronger dollar. Bilateral crosses vs. the US dollar.
Source: Bloomberg L.P, IMF staff analysis.

The debate on a deal to avoid a government shutdown continues, with limited market reaction so far. The latest version of the short-term funding measure (rejected by the House) is designated to finance government operations through March, suspend the debt ceiling until January 2027, extend the farm bill for an additional year, and provide $100bn for disaster aid. However, it omitted many other policy changes in the initial deal, which collapsed as they were opposed by President-elect Trump. If no legislation is passed by Friday, most federal operations will be suspended at 12:01 a.m. Saturday. However, the full ramifications of the shutdown will not be realized until Monday. much to this so far.

Euro Area

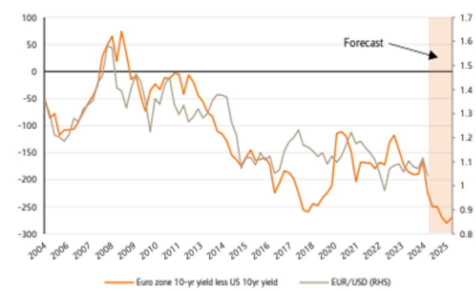
European equities and government bond yields were mostly lower this morning, reflecting the risk-off tone in markets. The Stoxx 600 index was -1.1% lower, with all sectors trading in the red. European government bond yields were lower across most tenors, with the 10-year bund yield broadly unchanged around 2.29%, while Southern spreads were relatively steady.

Increased monetary policy divergence between Europe and US expected to drive euro lower. Analysts at Standard Bank note that in 2023 and 2024, limited monetary policy divergence kept EUR/USD trading in relatively narrow ranges. However, looking ahead to 2025, the analysts think that the divergence between European and US 10Y yields could widen further given expectations that the ECB would continue to ease policy while the Fed could perhaps pause or even reverse course given the strength of the underlying US economy and the stickiness of inflation. The analyst argue that such a divergence could push EUR/USD to the 0.95 region or lower. Similarly, analysts at Bank of America expect that based on policy divergence alone, the US dollar should continue to outperform other G-10 currencies in 2025. This morning, the euro was trading firmer (+0.3%) against the dollar at 1.0389, with the currency almost 6% weaker against the greenback YTD.



Source: Bloomberg and IMF calculations

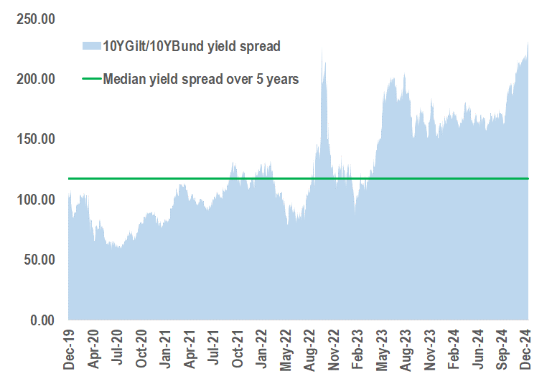
Figure 2: Yield forecasts hint at a weaker euro/dollar



Source: Bloomberg, Standard Bank Research

United Kingdom

10y Gilt-Bund yield spread

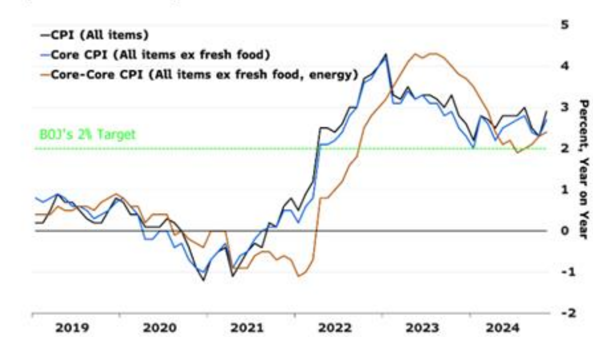


Source: Bloomberg and IMF calculations

This morning, 10-year gilt yield was broadly unchanged while the 30-year gilt yield was nearing levels last seen in 1998 trading at 5.09%. Data released this morning showed UK retail sales grew more slowly than expected last month, suggesting that consumers remain cautious with momentum in the UK economy slowing. Today's data outturn comes on the heels of a string of data released this week which has led some market participants arguing that the UK economy is heading towards "stagflation". Analysts at HSBC note that "the market has started to see the UK in particular as a stagflationary story—an outlook that could keep rates higher even if growth grinds to a halt and unemployment rises". While the BoE kept Bank Rate unchanged at 4.75% yesterday, as widely anticipated, the 6–3 vote split was a surprise. Some analysts argued that external MPC member Taylor and Deputy Governor Ramsden's votes in favor of a rate cut, were a signal to the market that repricing this week had gone too far. There is some divergence amongst analysts on the likely pace and extent of rate cuts next year, although most expect the next rate reduction in February, with some agreement that the MPC will likely have to cut more than what markets are currently pricing in. The 10y gilt yield was trading at around 4.57% this morning, taking the 10Y gilt-bund spread to 227bps, near the peak during the time when Liz Truss was Prime Minister. Meanwhile pound sterling was trading fractionally higher against the dollar at 1.2514.

Japan

Japan Inflation Gauges



Source: Ministry of Internal Affairs and Communications

Japan's inflation surprises marginally on the upside in November, supporting expectations that the Bank of Japan (BoJ)'s would gradually raise rates. Core CPI, excluding fresh food, rose 2.7% y/y in November, above expectations (2.6%) and higher than the previous month (2.3%). The core inflation surpassed the BoJ's 2% target, driven by higher energy costs, which were partly influenced by government utility subsidies. Meanwhile, services prices increased at the same speed as last month (1.5%), while processed food prices rose 4.2%, up from October's 3.8%, indicating rising consumer spending costs rather than real wage growth. Today, the yen rebounded (+0.4%) after finance minister

Kato's warning against one-sided speculation and currency chief Mimura expressing concerns, following a sharp depreciation against the dollar due to the BoJ's dovish message yesterday. However, economists from Bank of America expect the yen to continue weakening, as constrained year-end liquidity makes direct FX intervention unfavorable, potentially leading to increased volatility and challenging risk management for firms. The stock market declined (NIKKEI 225: -0.29%), as bank shares fell on the BoJ's decision to keep rates unchanged.

Emerging Markets back to top

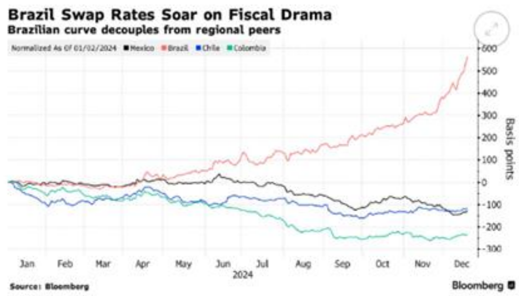
EMEA equities and currencies were mixed this morning. In CEE, equities were mostly lower with Poland underperforming (-1.5%), while Romania rebounded (2.1%) after yesterday's losses. CEE currencies were little changed against the euro, with the forint advancing marginally (+0.2), to trade at HUF413.86/€ after the **central bank of Hungary said it had increased today the implied forint interest rate at its EUR-providing T/N FX swap tender by 50bps to 6% in an effort to stabilize markets heading towards the year-end** when liquidity conditions and window-dressing transactions may increase volatility. The Turkish lira was slightly weaker (-0.3%) against the dollar, trading at 35.18/$, as consensus expects the central bank to cut its policy rate by -150bps to 48.50% on December 26. **The Turkish central bank has cut today the remuneration of banks' FX reserves to 3.5% from prior 3.75%**. The South African rand was little changed this morning against the dollar, trading at 18.35/$ while equities in South Africa were trading in the red (-0.6%).

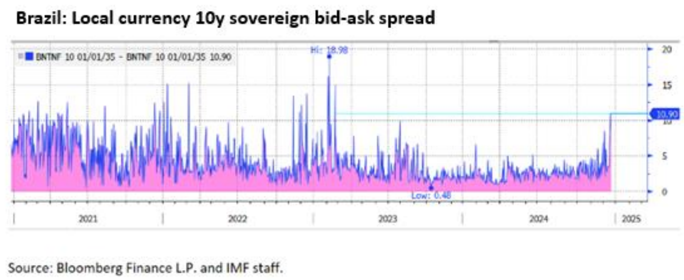
Asian stocks broadly declined (EM Asia: -1.1%), led by Korea (-1.3%) and India (-1.0%). India's volume of popular options contracts dropped 90% after the Securities and Exchange Board of India introduced regulations to curb excessive speculation, while the daily notional turnover of derivatives on the main bourses fell by about one-third in December compared to the rest of the year. **Asian currencies mostly appreciated against the dollar**, except for the Korean won (-0.3%), weighed by foreign outflows from local shares. **Korean authorities plan to ease the cap on banks' FX forward positions by 50% to increase FX inflows and address imbalances in the local FX market, preparing for the expansion of FX market participants following Korea's inclusion in the WGBI next year**.

Yesterday, Latin American markets showed mixed performance, with equities rising in Colombia (+1%) and Brazil but falling in Chile (-0.5%) and Mexico (-1.4%). The Brazilian real led currency gains alongside the Mexican peso, while the Chilean and Colombian pesos weakened, with the former pressured by a 1.7% drop in LME copper futures. Brazilian markets rebounded as analysts noted the selloff this week was broad enough to attract long-term investors. **Bloomberg analysts observed a potential link between the Brazilian real's recent selloff and India's Nifty 50 Index's underperformance, amid concerns of a broader negative feedback loop across EMs** Meanwhile, a record 1.1mn trades in Argentina overwhelmed the BYMA exchange system, driven by retail demand for US dollars. Paraguay held rates steady at 6.00% for the ninth consecutive month.

Brazil

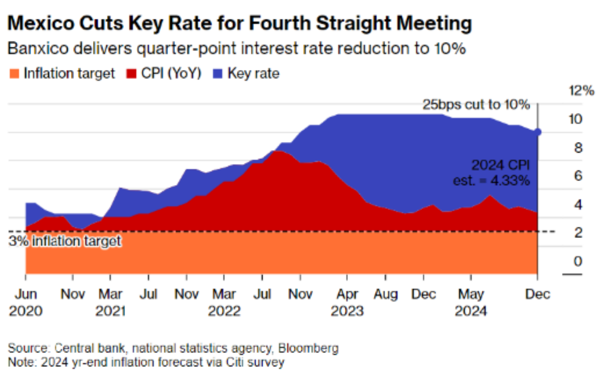
Brazil's financial market stabilized on Thursday driven by record FX interventions, with the Brazilian real strengthening by +2.5% and equities closing +0.3% higher. The Central Bank of Brazil (BCB) conducted $8bn in spot auctions yesterday, exceeding the $2bn planned a day earlier, bringing total support to $14bn over the past week. According to Bloomberg, Thursday's intervention was the largest since at least 1999, when real adopted a floating exchange rate in 1999. Additional auctions, including $3bn in spot and $4bn in credit lines, are scheduled for Friday. Further market support came from lawmakers approving a proposed constitutional amendment to cap "super salaries" for public workers, aiming to reduce deficits. The BCB's incoming governor reaffirmed guidance for two +100bps rate hikes in the coming meetings, dismissing steeper increases, as 2025 year-end forward rates fell -82bps to 16.58% following the announcement. However, the local currency 10yr sovereign bid-ask spread widened by +11bps, reaching its highest level since March 2023. While the Brazilian real strengthened yesterday, it remains roughly 1.4% weaker than at the start of the week, with the equity market also -2.8% lower so far this week.

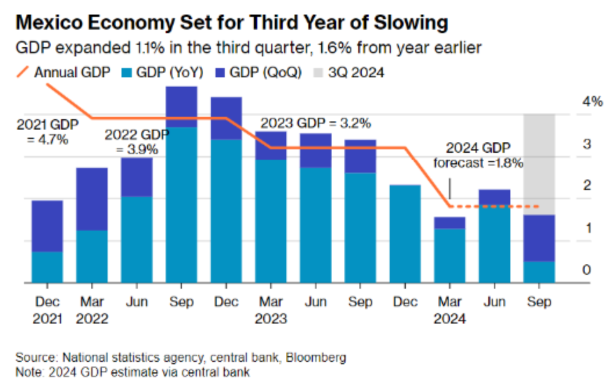




Mexico

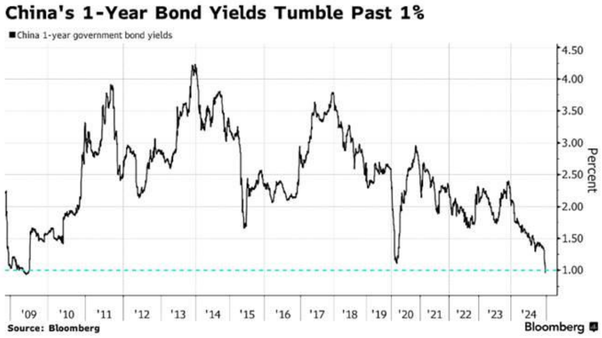
Banxico unanimously cut its key rate by 25bps to 10.00%, easing rates for the fourth consecutive meeting amid progress towards its inflation target. Core inflation has slowed for 22 straight months, reaching 3.58% y/y, within the 2–4% target range of the central bank. Despite expressing optimism about disinflation, Banxico plans to maintain a restrictive stance while signaling potential acceleration in easing. The decision was in line with consensus expectations, while some analysts had expected a larger rate cut. The peso appreciated in the aftermath of the announcement and the local currency sovereign yield curve bear steepened, with 10-year yields rising +10bps. Meanwhile, Bloomberg reports that some hedge funds are is shortening the peso, along with other EM currencies, arguing that the proposed tariffs of US President-elect have not fully been priced in.





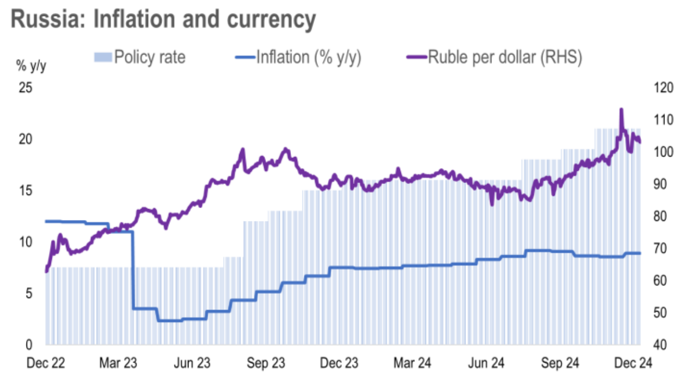
China

China's one-year bond yields dropped to a record low (0.88%), driven by expectations of further monetary easing. Strong expectations for easing by the PBOC and a shortage of high-quality fixed-income assets has shifted demand towards shorter-maturity debt, according to Mizuho Bank's FX strategist. This follows after the bond rally in longer-term bonds earlier this month, which pushed the benchmark 10-year yields to below 2%, was met with pushback from the PBOC against this trend. ANZ Banking Group's strategist highlighted that shorter-dated securities benefit from ample liquidity and central bank operations, though it is unusual for yields to drop below the bank deposit rate (1.1%). Meanwhile, **China's commercial banks kept their loan prime rates (LPR) unchanged today**, with the one-year LPR at 3.10% and the five-year LPR at 3.60%. However, banks recently raised new mortgage rates, with the average rate for first homes in 42 major cities increasing to 3.08% in November from 3.05%, the first rise in three years. Analysts explained that despite weak housing demand, banks face a record low net interest margin of 1.53% in Q3, well below the 1.8% profitability threshold, and this rate hike could create a buffer for potential deeper cuts next year. Today, the stock market declined onshore (CSI 300: -0.45%) and offshore (HSI: -0.16%). The yuan remained stable against the dollar (-0.02%).



Russia

The ruble was little changed against the dollar after the central bank of Russia surprised this morning by holding its policy rate unchanged at 21% while consensus had expected a 200bps rate hike. The central bank reportedly explained the decision to pause hiking rates by the fact that "monetary conditions tightened more significantly than envisaged in the October rate decision", when the policy rate was increased by +100bps to the current level of 21%. Headline inflation in Russia has reached 8.9%y/y in November (core inflation at 8.3%y/y) while GDP grew by 3.1%y/y in Q3. Analysts at Goldman Sachs expect Russia's growth to slow to 2.7% at the end of 2024 and to 1.2% in 2025, reflecting the delayed impact of monetary tightening and upcoming fiscal tightening. Still, the analysts expect inflation to only decline gradually next year given the current overheating of the economy and a labor market that continued to tighten with unemployment falling to all-time low of 2.3% in October. According to Bloomberg, consensus expects inflation to average at 8.4%y/y in 2024 and at 7.4% in 2025, with the benchmark rate reduced to 17% by the end of 2025 and 11.25% in 2026. The Russian ruble was trading around RUB 103.21/$ this morning, roughly -10% weaker against the dollar than in September.



Source: Bloomberg and IMF calculations

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.

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Global Financial Indicators

	Level		Change				
12/20/24 1:56 PM	**Last 12m**	**Latest**	**1 Day**	**7 Days**	**30 Days**	**12 M**	**YTD**
Equities					%		%
United States		5,845	-0.1	-3.4	-1.2	24.4	23
Europe		4,823	-1.1	-2.9	2.0	6.4	7
Japan		38,702	-0.3	-1.9	1.1	16.7	16
China		3,928	-0.4	-0.1	1.6	17.7	14
Asia Ex Japan		72	0.5	-3.7	-2.4	13.3	9
Emerging Markets		42	0.3	-4.3	-2.9	8.4	5
Interest Rates					basis points		
US 10y Yield		4.5	-6	10	9	65	62
Germany 10y Yield		2.3	-3	2	-7	31	25
Japan 10y Yield		1.1	-1	2	-1	51	45
UK 10y Yield		4.5	-5	12	7	101	100
Credit Spreads					basis points		
US Investment Grade		121	1	5	2	-16	-13
US High Yield		329	4	23	18	-60	-57
Exchange Rates					%		
USD/Majors		108.0	-0.4	0.9	1.2	5.4	7
EUR/USD		1.04	0.5	-0.9	-1.3	-4.9	-6
USD/JPY		156.5	-0.6	1.9	0.7	9.0	11
EM/USD		43.4	0.4	-0.7	-1.7	-9.6	-10
Commodities					%		
Brent Crude Oil ($/barrel)		72.5	-0.5	-2.7	0.0	-6.0	-3
Industrials Metals (index)		140.7	0.6	-3.0	-3.2	0.6	-1
Agriculture (index)		56.0	0.7	-1.4	-1.1	-10.9	-10
Implied Volatility					%		
VIX Index (%, change in pp)		23.9	-0.2	10.1	6.7	10.2	11.5
Global FX Volatility		9.1	0.0	0.6	0.5	1.4	1.0
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		87	2	5	1	-23	-16
Italy		118	1	4	-5	-45	-50
France		82	1	4	7	31	29
Spain		71	1	4	-1	-24	-26

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

Emerging Market Financial Indicators

Last updated:	Exchange Rates							Local Currency Bond Yields (GBI EM)						
12/20/2024	Level		Change (in %)					Level		Change (in basis points)				
1:14 PM	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	0.0	-0.3	-0.7	-2.2	-2.7		1.7	0	-5	-27	-92	-85
Indonesia		16195	0.6	-1.2	-2.0	-4.2	-4.9		7.1	3	8	21	40	50
India		85	0.1	-0.3	-0.7	-2.2	-2.1		7.3	2	22	4	16	8
Philippines		59	0.3	-0.6	0.2	-5.2	-5.8							
Thailand		34	0.2	-1.0	0.7	1.2	-1.0		2.3	1	-3	-17	-54	-46
Malaysia		4.51	0.0	-1.3	-0.8	3.4	2.0		3.9	2	5	4	12	13
Argentina		1022	0.0	-0.4	-1.9	-21.4	-20.9		28.5	41	-39	5	-5463	-5792
Brazil		6.09	0.9	-0.5	-5.1	-19.3	-20.2		15.2	-56	72	191	504	513
Chile		993	0.0	-0.6	-2.0	-12.2	-11.5		5.5	10	19	6	20	22
Colombia		4368	0.2	-1.2	0.8	-9.8	-11.8		11.5	16	35	85	148	162
Mexico		20.24	0.4	-0.6	0.2	-15.3	-16.1		10.2	11	23	36	99	113
Peru		3.7	0.2	0.4	1.9	-0.1	-0.5		6.8	7	20	4	-2	9
Uruguay		45	0.1	-0.4	-4.8	-11.8	-13.1		9.6	-1	-1	14	-5	5
Hungary		398	0.4	-2.3	-2.4	-11.9	-12.8		6.4	17	33	5	70	56
Poland		4.10	0.2	-1.0	0.3	-3.2	-4.0		5.6	9	18	28	77	59
Romania		4.8	0.3	-1.1	-1.4	-5.2	-5.9		7.4	22	38	52	112	119
Russia		103.9	-0.4	0.7	-3.3	-12.5	-13.9							
South Africa		18.4	0.0	-2.8	-1.5	-0.4	-0.2		10.5	9	21	3	-68	-73
Türkiye		35.18	-0.3	-0.6	-2.0	-17.2	-16.1		30.9	21	3	-15	552	472
US (DXY; 5y UST)		108	-0.2	1.1	1.4	5.6	6.7		4.38	-4	13	10	54	54

	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		3,928	-0.4	-0.1	1.6	17.7	14.5		95	-4	-5	-61	-63
Indonesia		6,984	0.1	-4.7	-2.9	-3.5	-4.0		88	-3	-5	-11	-8
India		78,042	-1.5	-5.0	-1.4	9.8	8.0		84	-1	4	-26	-32
Philippines		6,406	0.2	-3.2	-5.5	-1.5	-0.7		77	-3	-5	-4	-3
Thailand		1,365	-0.9	-4.7	-5.6	-2.8	-3.6						
Malaysia		1,591	-0.5	-1.1	0.1	9.4	9.4		67	-3	2	-13	-18
Argentina		2,419,894	-4.0	5.0	12.8	163.1	160.3		660	-55	-90	-1200	-1253
Brazil		121,188	0.3	-2.7	-5.5	-7.4	-9.7		254	37	41	40	39
Chile		6,680	-0.3	-1.3	1.6	10.0	7.8		114	3	0	-12	-11
Colombia		1,373	0.9	-0.5	-0.9	18.1	14.9		325	22	5	36	54
Mexico		49,254	-1.4	-4.0	-1.8	-13.5	-14.2		313	16	12	-28	-21
Peru		28,941	-0.7	-4.0	-5.6	13.0	11.5		145	14	8	0	1
Hungary		78,752	0.1	-1.8	-0.4	29.0	29.9		151	10	-2	1	2
Poland		78,943	-1.5	-3.3	1.3	0.5	0.6		108	6	-4	13	11
Romania		16,794	2.2	-3.7	-2.3	9.1	9.3		236	28	25	35	35
South Africa		84,256	-0.2	-3.1	-1.2	12.5	9.6		281	6	-2	-34	-27
Türkiye		9,730	-0.4	-3.9	7.7	27.0	30.2		253	1	-1	-54	-61
EM total		42	-0.3	-4.3	-2.9	8.4	4.7		367	13	-4	23	22

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

back to top