GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

# Global Markets Monitor

TUESDAY, DECEMBER 3, 2024
LEAD EDITOR: SANJAY HAZARIKA

- **Markets keep wary eye on US Treasury yield levels** (link)
- **Derivatives markets price in higher US inflation** (link)
- **Yen carry trade shows signs of a comeback** (link)
- **RMB at weakest level in a year** (link)
- **Political crisis in France remains in focus** (link)
- **Liquidity in US Treasury market remains key area of concern** (link)

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## Global markets confront complex landscape

**Stocks in Europe are mostly higher after another day of solid gains in Asia, where the Nikkei rallied by nearly 2%.** US equity index futures are mixed after the S&P 500 set yet another record yesterday. Dollar strength remains an important theme for markets, as the RMB depreciated to its weakest level in a year despite support from the central bank, with investors predicting further weakness in 2025. Meanwhile, the Yen carry trade is showing signs of a revival, with short positions in the currency on the rise. The turbulent unwinding of the Yen carry trade in August triggered a surge in volatility and a major market selloff, so market participants are watching developments closely. Meanwhile, France faces a potential government collapse, with a no-confidence vote in the assembly scheduled for tomorrow. The yield spread between 10-year bunds and French OATs remains elevated at 86 bps, but so far there are no indications that the problems in France could have broader implications for European markets.

**Key Global Financial Indicators**

| Last updated: 12/3/24 7:26 AM | Level Last 12m | Level Latest | Change from Market Close 1 Day | 7 Days | 30 Days | 12 M | YTD |
|---|---|---|---|---|---|---|---|
| **Equities** | | | | | % | | % |
| S&P 500 | | 6047 | 0.2 | 1 | 6 | 32 | 27 |
| Eurostoxx 50 | | 4873 | 0.5 | 2 | 0 | 10 | 8 |
| Nikkei 225 | | 39249 | 1.9 | 2 | 3 | 17 | 17 |
| MSCI EM | | 43 | 0.4 | 0 | -2 | 9 | 8 |
| **Yields and Spreads** | | | | | bps | | |
| US 10y Yield | | 4.21 | 2.1 | -10 | -17 | 2 | 33 |
| Germany 10y Yield | | 2.06 | 3.0 | -12 | -34 | -30 | 4 |
| EMBIG Sovereign Spread | | 336 | 0 | 1 | 3 | -76 | -47 |
| **FX / Commodities / Volatility** | | | | | % | | |
| EM FX vs. USD, (+) = appreciation | | 43.6 | 0.2 | -1 | -2 | -9 | -9 |
| Dollar index, (+) = $ appreciation | | 106.3 | -0.1 | 0 | 2 | 3 | 5 |
| Brent Crude Oil ($/barrel) | | 72.7 | 1.3 | 0 | -1 | -8 | -6 |
| VIX Index (%, change in pp) | | 13.3 | 0.0 | -1 | -9 | 1 | 1 |

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

## Mature Markets
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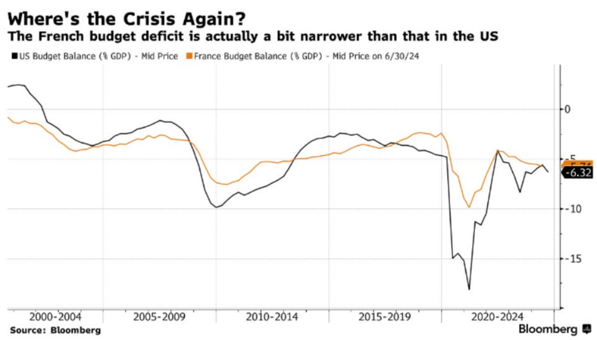
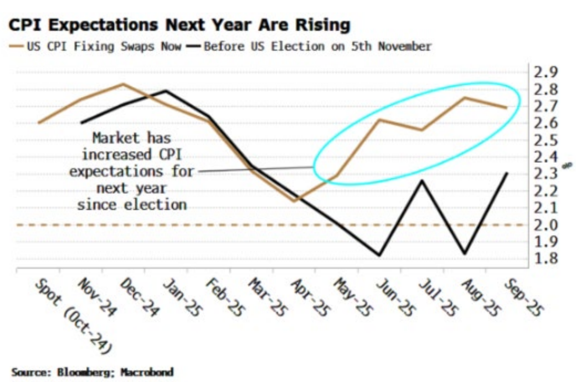
### United States

**Market participants are nervously eyeing the level of US Treasury yields, fearing that a surge in yields on speculation about looser policies under the new administration could derail the current global equity rally.** Analysts report worries that a surge in the 10-year yield above 4.50% before year end could inject a major dose of volatility into the marketplace. Treasury yields have been rising steadily since the middle of September, with the 10-year going as high as 4.45% on November 13 before coming back down. Bloomberg points out that France is in a deficit-induced political crisis with a similar budget deficit and a debt to GDP ratio of 110% compared to 120% in the US. Any sign that inflation could be returning to the US economy could be a catalyst for a major reversal for US markets. The S&P 500 set yet another record high yesterday.



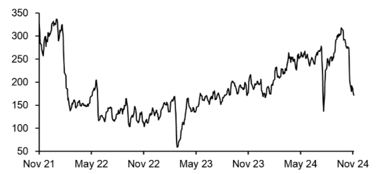

**Derivatives markets in the US are pricing higher levels of inflation for the year ahead.** The new policies expected under the new administration are among the key drivers of these rising inflation expectations. US CPI swaps have moved significantly higher since the election on November 5, pointing to inflation showing a marked rise in Q2 2025. This forecast is corroborated by the movement in US Treasury Inflation Protected Security (TIPS) breakeven yields, key market indicators for inflation expectations. The five-year TIPS breakeven yield jumped from less than 1.90% in early September to 2.37% recently, with the rise in yield accelerating in step with the market's prediction of a Trump victory. If realized, these market forecasts could presage a period of high volatility, as expectations of Fed rate cuts are reversed and fears of a more hawkish Fed rise. Analysts at Bloomberg point out that the market has consistently underestimated the pace of US inflation over the past cycle.




**Market depth and liquidity in the US Treasury market has declined significantly, especially since the US election.** This is a major concern for market participants because the US Treasury market is the largest government bond market in the world and serves as the ultimate safe asset for the entire global financial system. A disruption in this key market could have profound implications for global financial stability, as seen during the initial Covid epidemic in March 2020 and on a smaller scale during the abrupt carry-trade unwind last August. However, analysts at JP Morgan are not too worried by recent trends, which they attribute to seasonality and the US election. Their proprietary analysis of Treasury market liquidity which includes other measures besides market depth finds that liquidity is close to average levels. Nevertheless, a liquidity shock remains a key risk for markets if unexpected problems arise.

**Figure 14: Market depth has declined sharply since early-November...**

Duration-weighted Treasury market depth*, 1-month moving average; $mn 10-year Treasury equivalents

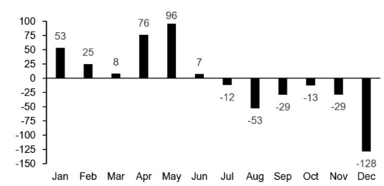



* The sum of the three bids and offers by queue position, averaged between 8:30 and 10:30am daily. This is the sum of 2-, 5-, 10-, and 30-year depth in 10-year equivalents

Source: J.P. Morgan, BrokerTec

**Figure 15: ...as the seasonal decline has begun earlier, perhaps hastened by the presidential election**

Duration weighted market depth*, averaged by month, minus the average from 2013 - 2023 (excluding 2020); $mn

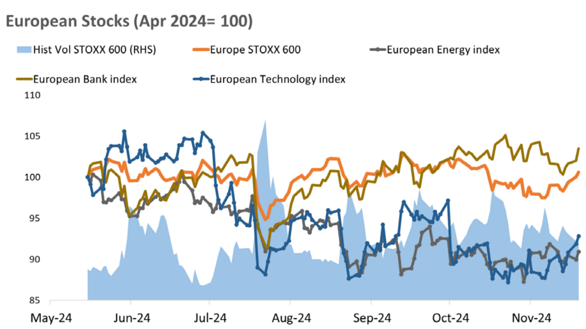



* See Figure 14 for more details

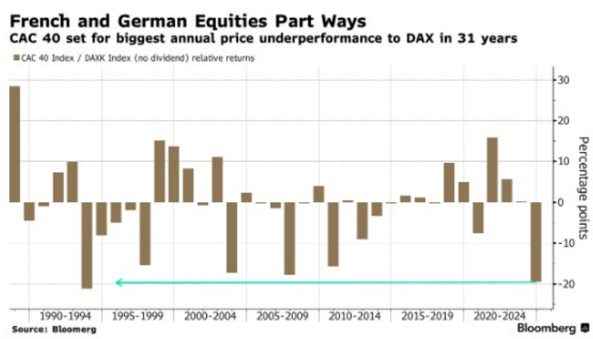
Source: J.P. Morgan, BrokerTec

### Euro Area

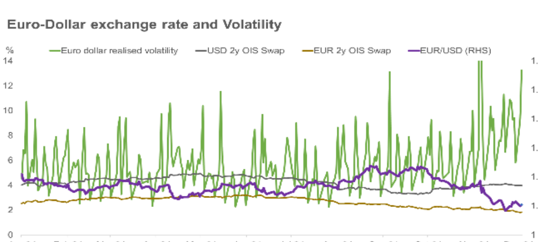
**European equities as measured by the Stoxx 600, traded higher (0.5%) this morning,** led by gains in the energy (1.3%) banking (1%) and consumer discretionary goods (0.8%) sectors. All main bourses in Europe were in the green, including in France where the CAC 40 was up by 0.2% while continuing to underperform the broader European stock market (CAC 40 -3.5% YTD vs Stoxx 600 index at 8% YTD).



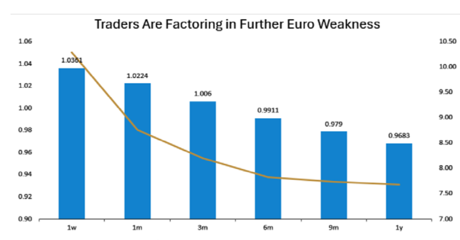

Source: Bloomberg and IMF calculations




**The euro regained some ground** (0.2%) **against the dollar today after yesterday's selloff to trade at $1.0523/€. European government bond yields edged higher this morning with continued focus on political developments in France.** This morning 10y bund yields (+3bps) were trading at around 2.05%, while 2y Bund yields were trading at 1.94% (+4bps). Meanwhile 10Y French OAT yield was steady at 2.90%.

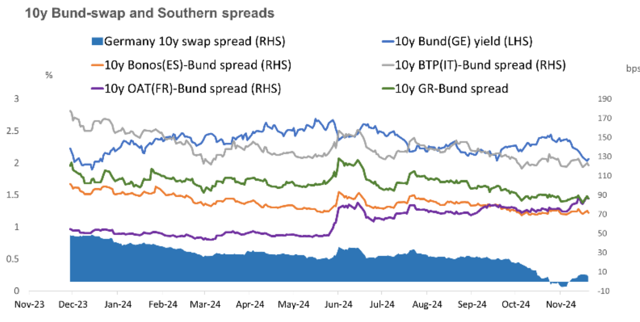



Source: Bloomberg and IMF calculations




Source: Bloomberg

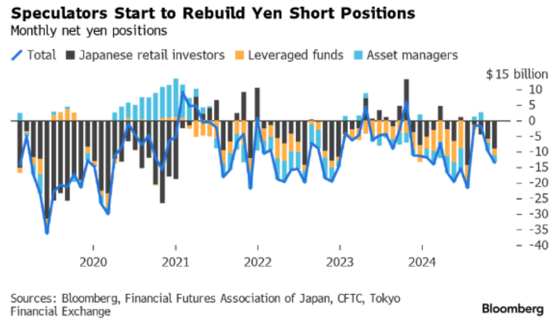
**The political crisis in France is a major focus for markets.** Prime Minister Michele Barnier used a constitutional mechanism, called Article 49.3, which allows for legislation to be adopted without vote by the National Assembly, to pass the budget bill related to social security, after the government made a last-minute compromise by abandoning the proposal to reduce drug reimbursements. However, this was not enough to prevent a no-confidence motion from the National Rally (NR) opposition party, which triggers a vote in the assembly tomorrow. **French Finance Minister Antoine Armand warned of the painful consequences for the French economy if the government is defeated.** If the government loses the vote of confidence, it could remain in place with caretaker status.



Source: Bloomberg and IMF calculations

**Japan**

**The yen carry trade is showing signs of a comeback**, driven by wide interest rate differentials and relatively low volatility in currency markets. Bearish bets on the yen through short positions rose almost 40% m/m to $13.5 bn in November, though this remains below the $21.6 bn level seen at the end of July, before the volatile unwinding of the carry trade in August. Despite recent rate hikes by the Bank of Japan (BOJ), the yield gap between Japan and major economies remains substantial, making the yen an attractive funding currency for investors seeking higher yields in global markets. Analysts note that the yen-funded carry trades continue to be profitable and could regain momentum, particularly if volatility remains subdued. A JP Morgan gauge of global foreign-exchange volatility has decreased from its post-pandemic high, even amid rising uncertainties related to the new Trump administration and escalating geopolitical tensions. However, analysts expressed concerns regarding future BOJ policy decisions and Trump's trade policies, which could introduce volatility and require further clarity before carry-traders fully re-enter the market. Today, the yen depreciated (-0.3%) slightly against the dollar, while the stock market gained (NIKKEI 225: +1.9%).




## Emerging Markets

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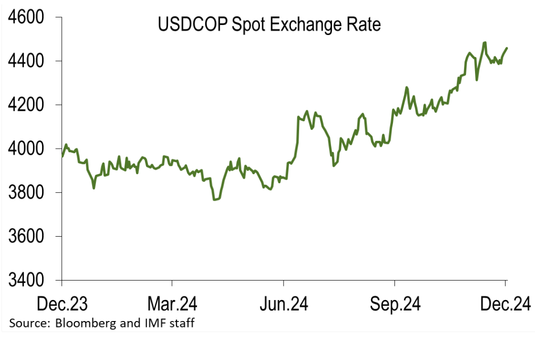
**EMEA equities and currencies were trading mixed this morning.** In CEE, equities were in the green except for Poland, where equities were lower (-0.4%), and the zloty weakened (-0.2%) against the euro to trade at 4.30/€. **Latin American equities advanced and currencies retreated.** Stocks gained in Mexico (+1.2%), Chile (+1.0%), Colombia (+0.5%), and Peru (+0.7%), while Brazil's equity market declined 0.3%. Currencies depreciated in Brazil (-1.6%), Colombia (-0.6%), and Chile (-0.5) against the US dollar. **Asian stock markets mostly gained**, led by Korea (+1.9%) and Indonesia (+1.8%). The Korean stock benchmark attracted its largest daily foreign inflow ($385 mn) today in over three months, fueled by optimism towards the country's exports given strong US economic data.

**China**

**The RMB has weakened to a one-year low despite support from the PBOC.** The onshore RMB depreciated by 0.1% to 7.281 per dollar, having recorded 7.2972 in the morning session, its weakest level since November 2023. The offshore RMB briefly surpassed 7.3 during the morning session before retreating to 7.297. In response, **the PBOC** increased its support by setting today's USD/CNY fixing at 7.1996, 695 pips below estimates—the largest gap since August. Traders interpreted the lack of directional change from yesterday's fix of 7.1865 as a sign of the authorities' willingness to permit further declines in the RMB in both onshore and offshore markets. Bloomberg reported that the upward channel for USD/CNY appears entrenched, and a breakout above recent highs could prompt further weakening toward the 7.30 mark. Analysts expect that the RMB could reach a 17-year low against the dollar by 2025, with some bearish forecasts suggesting a decline of around 10%. Additionally, the record-low yields of 10-year Chinese government bonds (CGBs) add downward pressure on the RMB.

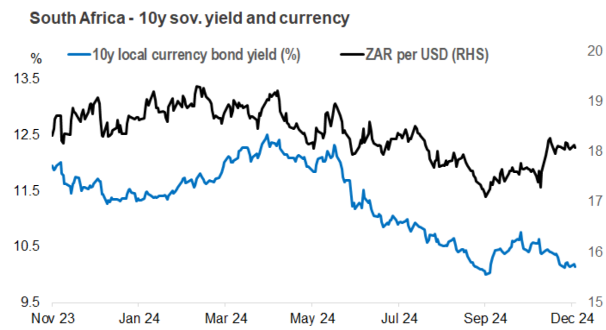

**Colombia**

**The Colombian peso fell as much as 1.1% during the day, due to investor worries about fiscal stability.** According to press reports, a corruption scandal involving Finance Minister Bonilla has further complicated matters. His former adviser alleges he diverted funds to bribe lawmakers for international loan approvals. The government faces mounting pressure as Congress prepares to debate a second tax reform. With a 12 trillion peso ($2.7 billion) budget shortfall, Bonilla has just one month to secure tax hikes but faces growing opposition and calls for his resignation. Fiscal concerns intensified after the finance ministry announced a 28.4 trillion-peso spending cut due to missed tax revenue targets.




**South Africa**

**South Africa's Q3 GDP data showed a surprise contraction.** Data released this morning showed that GDP growth fell by -0.3% q/q in Q3, contrary to consensus expectations for output to grow by 0.4% in Q3. Output for Q2 was also revised lower to 0.3% q/q (down from 0.4% previously). The decline in Q3 output was attributed to a fall in output in the agriculture sector and transport industry. Following the data release, the rand was trading 0.3% firmer against the dollar at 18.08/$, while the yield on its 10-year local currency bond was stable at around 10.14%. Analysts at Goldman Sachs expect today's downside surprise in Q3 GDP growth relative to the central bank's forecast to be "incrementally dovish for South Africa's rate prospects." The analysts note that today's data outturn has bolstered their forecast for consecutive rate cuts at the next two MPC meetings, followed by a slower pace of cuts and forecasted terminal rate of 6.50% by Q1 2026.

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## Global Financial Indicators

| 12/3/24 7:28 AM | Level: Last 12m | Level: Latest | Change: 1 Day | Change: 7 Days | Change: 30 Days | Change: 12 M | YTD |
|---|---|---|---|---|---|---|---|
| **Equities** | | | | | % | | % |
| United States | | 6,047 | 0.2 | 1.3 | 5.6 | 31.6 | 27 |
| Europe | | 4,873 | 0.5 | 2.3 | -0.1 | 10.3 | 8 |
| Japan | | 39,249 | 1.9 | 2.1 | 3.1 | 17.4 | 17 |
| China | | 3,952 | 0.1 | 2.9 | 1.6 | 13.5 | 15 |
| Asia Ex Japan | | 75 | 0.4 | 0.7 | -2.3 | 13.6 | 12 |
| Emerging Markets | | 43 | 0.4 | 0.3 | -2.4 | 9.3 | 8 |
| **Interest Rates** | | | | | basis points | | |
| US 10y Yield | | 4.2 | 2 | -10 | -17 | 2 | 33 |
| Germany 10y Yield | | 2.1 | 3 | -12 | -34 | -30 | 4 |
| Japan 10y Yield | | 1.1 | 0 | 1 | 13 | 38 | 47 |
| UK 10y Yield | | 4.2 | 1 | -13 | -22 | 8 | 69 |
| **Credit Spreads** | | | | | basis points | | |
| US Investment Grade | | 117 | 0 | -2 | -10 | -24 | -17 |
| US High Yield | | 310 | -1 | 2 | -17 | -115 | -75 |
| **Exchange Rates** | | | | | % | | |
| USD/Majors | | 106.3 | -0.1 | -0.5 | 1.9 | 2.9 | 5 |
| EUR/USD | | 1.1 | 0.1 | 0.2 | -3.4 | -3.0 | -5 |
| USD/JPY | | 149.9 | 0.2 | -2.1 | -1.5 | 1.8 | 6 |
| EM/USD | | 43.6 | 0.2 | -0.7 | -2.3 | -9.4 | -9 |
| **Commodities** | | | | | % | | |
| Brent Crude Oil ($/barrel) | | 72.7 | 1.3 | 0.6 | 0.0 | -4.3 | -2 |
| Industrials Metals (index) | | 145.6 | 0.8 | -0.1 | -1.9 | 4.1 | 2 |
| Agriculture (index) | | 56.2 | 0.9 | -0.2 | 1.1 | -13.4 | -10 |
| **Implied Volatility** | | | | | % | | |
| VIX Index (%, change in pp) | | 13.3 | 0.0 | -1.3 | -8.6 | 0.7 | 0.9 |
| Global FX Volatility | | 8.9 | 0.0 | 0.2 | -0.2 | 1.3 | 0.8 |
| **EA Sovereign Spreads** | | | | | 10-Year spread vs. Germany (bps) | | |
| Greece | | 86 | -3 | -3 | -5 | -36 | -18 |
| Italy | | 119 | -4 | -9 | -9 | -55 | -48 |
| Portugal | | 46 | -3 | -6 | 0 | -19 | -18 |
| Spain | | 71 | -3 | -5 | -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: 12/3/2024 7:30 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 | | 7.29 | -0.2 | -0.5 | -2.5 | -2.0 | -2.6 | | 1.9 | -4 | -7 | -15 | -80 | -68 |
| Indonesia | | 15946 | -0.3 | -0.1 | -1.2 | -3.0 | -3.4 | | 6.9 | 2 | 0 | 11 | 21 | 35 |
| India | | 85 | 0.0 | -0.4 | -0.7 | -1.6 | -1.8 | | 7.0 | 0 | -21 | -22 | -40 | -19 |
| Philippines | | 59 | 0.2 | 0.7 | -0.4 | -5.6 | -5.5 | | 0.0 | -700 | -708 | -694 | -687 | -694 |
| Thailand | | 34 | 0.1 | 0.8 | -2.1 | 2.3 | -0.6 | | 2.4 | -2 | -12 | -14 | -64 | -41 |
| Malaysia | | 4.47 | -0.2 | -0.3 | -2.1 | 4.2 | 2.8 | | 3.8 | 0 | -1 | -12 | -2 | 7 |
| Argentina | | 1012 | -0.1 | -0.5 | -1.9 | -64.2 | -20.1 | | 29.4 | -19 | 110 | -263 | -7152 | -5702 |
| Brazil | | 6.05 | 0.3 | -3.9 | -4.4 | -18.3 | -19.8 | | 14.0 | 1 | 72 | 71 | 353 | 395 |
| Chile | | 973 | 0.5 | 0.5 | -2.0 | -10.6 | -9.5 | | 5.3 | 1 | -12 | -7 | -26 | 0 |
| Colombia | | 4459 | -0.6 | -1.6 | -0.9 | -9.9 | -13.1 | | 10.8 | -4 | 20 | -13 | 27 | 95 |
| Mexico | | 20.36 | 0.2 | 1.4 | -1.2 | -14.2 | -16.6 | | 10.0 | 3 | 1 | -27 | 60 | 88 |
| Peru | | 3.8 | 0.1 | 0.5 | 0.5 | -0.1 | -1.3 | | 6.6 | 0 | -2 | -23 | -51 | -11 |
| Uruguay | | 43 | 0.0 | -1.2 | -3.6 | -9.5 | -9.9 | | 9.6 | 0 | 2 | 21 | -7 | 5 |
| Hungary | | 395 | 0.0 | -0.9 | -4.9 | -11.1 | -12.0 | | 6.2 | 3 | 1 | -54 | -47 | 28 |
| Poland | | 4.09 | -0.1 | 0.4 | -2.0 | -2.3 | -3.7 | | 5.2 | 3 | -2 | -33 | -5 | 24 |
| Romania | | 4.7 | 0.1 | 0.2 | -3.4 | -3.2 | -4.8 | | 7.2 | 0 | -4 | 46 | 48 | 100 |
| Russia | | 105.4 | 1.1 | 0.0 | -6.2 | -13.5 | -15.1 | | | | | | | |
| South Africa | | 18.1 | 0.0 | 0.4 | -3.3 | 3.7 | 1.3 | | 10.3 | 5 | 5 | -35 | -105 | -95 |
| Türkiye | | 34.75 | -0.1 | -0.3 | -1.2 | -16.7 | -15.0 | | 29.9 | 22 | 4 | -119 | 324 | 377 |
| US (DXY; 5y UST) | | 106 | -0.1 | -0.5 | 2.0 | 3.0 | 4.9 | | 4.10 | 1 | -9 | -13 | -2 | 25 |

| | 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 | | 3,952 | 0.1 | 2.9 | 1.6 | 13.5 | 15.2 | | 98 | -5 | -7 | -59 | -60 |
| Indonesia | | 7,196 | 2.1 | -1.6 | -4.1 | 1.9 | -1.1 | | 101 | 0 | 19 | -23 | 5 |
| India | | 80,846 | 0.7 | 1.1 | 1.4 | 19.8 | 11.9 | | 85 | 1 | -3 | -41 | -31 |
| Philippines | | 6,734 | -0.1 | -1.1 | -5.7 | 7.8 | 4.4 | | 88 | -1 | 20 | -16 | 8 |
| Thailand | | 1,455 | 1.2 | 1.1 | -0.6 | 5.4 | 2.7 | | 0 | 0 | 0 | 0 | 0 |
| Malaysia | | 1,607 | 0.7 | 0.2 | 0.2 | 10.3 | 10.5 | | 68 | 0 | 2 | -22 | -17 |
| Argentina | | 2,299,129 | 1.8 | 3.6 | 22.3 | 164.2 | 147.3 | | 756 | 7 | -196 | -1231 | -1157 |
| Brazil | | 125,236 | -0.3 | -2.9 | -2.3 | -2.3 | -6.7 | | 228 | 19 | 25 | 11 | 13 |
| Chile | | 6,640 | 1.0 | 1.2 | 1.4 | 12.8 | 7.1 | | 122 | 2 | 14 | -7 | -3 |
| Colombia | | 1,399 | 0.5 | 0.5 | 3.4 | 21.4 | 17.0 | | 329 | 6 | -3 | 31 | 58 |
| Mexico | | 50,414 | 1.2 | 0.4 | -0.4 | -6.5 | -12.1 | | 311 | 8 | 16 | -39 | -23 |
| Peru | | 29,679 | 0.7 | -0.8 | -2.6 | 32.9 | 14.3 | | 145 | -2 | 10 | 2 | 1 |
| Hungary | | 78,327 | 0.2 | -2.2 | 6.0 | 35.0 | 29.2 | | 165 | 1 | 18 | -10 | 16 |
| Poland | | 80,907 | -0.2 | 1.7 | 1.7 | 6.0 | 3.1 | | 116 | -4 | 14 | 2 | 19 |
| Romania | | 16,108 | -2.1 | -5.2 | -7.8 | 9.5 | 4.8 | | 227 | -3 | 31 | 15 | 26 |
| South Africa | | 86,395 | 0.8 | 1.2 | 0.2 | 14.1 | 12.4 | | 290 | 5 | 15 | -61 | -18 |
| Türkiye | | 9,854 | 1.8 | 2.3 | 10.9 | 22.8 | 31.9 | | 262 | 0 | 4 | -105 | -52 |
| EM total | | 43 | 0.5 | 0.3 | -2.4 | 9.3 | 8.0 | | 371 | 0 | -8 | 0 | 26 |

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

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