



- French-German yield spread closes despite collapse of the government in France ([link](#))
- High rates continue to drive US leveraged loan defaults ([link](#))
- Crypto assets bolstered by president-elect Trump's choice for SEC chair ([link](#))
- BOJ sold futures-linked 10-year government bonds to enhance market liquidity ([link](#))
- A new financial-conditions index for China indicates a tightening in recent months ([link](#))

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Markets steady after French vote

French markets are recovering some today following yesterday's no-confidence vote as markets had seemingly already anticipated that as the most likely outcome. The spread between 10-year OAT and German bund yields is 3 bp lower on the day and the CAC equity index is 0.3% higher. In the US, after setting yet another all-time closing high yesterday (the fifty-sixth time this year), futures on the S&P 500 are slightly negative ahead of today's market opening. The sentiment for US stocks was boosted yesterday by comments from Fed chair Powell that the US economy is in "remarkably good shape." Investors now wait to see whether tomorrow's non-farm payroll report will further that sentiment. Meanwhile crypto assets are continuing their rally, with those markets receiving another boost yesterday from president-elect Trump's choice for SEC chair, who is seen as a supporter of the industry. This morning, bitcoin is higher by an additional 5% rising to above \$100,000. It has now gained nearly 50% since the US election.

Key Global Financial Indicators

Last updated: 12/5/24 8:36 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		6086	0.6	1	5	33	28
Eurostoxx 50		4937	0.4	4	1	11	9
Nikkei 225		39396	0.3	3	0	18	18
MSCI EM		44	0.3	1	-4	12	9
Yields and Spreads			bps				
US 10y Yield		4.21	3.1	-5	-6	5	33
Germany 10y Yield		2.09	2.7	-4	-34	-16	6
EMBIG Sovereign Spread		335	3	1	-5	-69	-48
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		43.9	0.6	1	-1	-8	-9
Dollar index, (+) = \$ appreciation		106.1	-0.2	0	3	2	5
Brent Crude Oil (\$/barrel)		72.3	-0.1	-1	-4	-6	-6
VIX Index (% change in pp)		13.5	0.1	-1	-7	1	1

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

Mature Markets

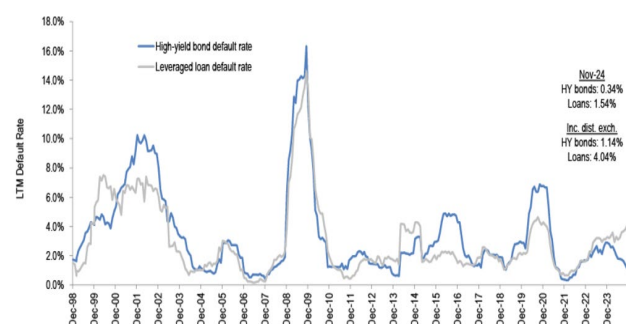
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United States

Yesterday, the S&P 500 added 0.6%, supported by Fed Chair Powell's comments about the strength of the US economy. Energy stocks underperformed (-2.5%), in line with falling oil prices amid uncertainty over OPEC+'s potential deal to keep output constrained. US Treasury yields fell by 4–5 bp across the curve, mostly due to falling real yields. The US dollar remained largely unchanged.

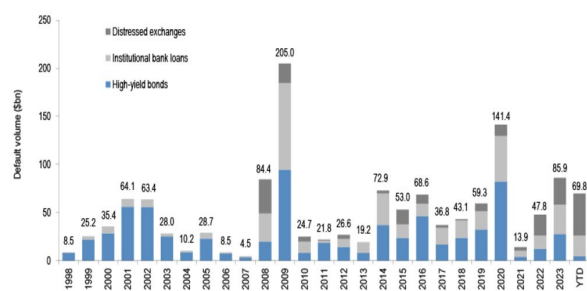
High interest rates continue to drive rising default rates in US leveraged loans (grey line, left chart), **as floating-rate debt depletes borrowers' buffers.** In contrast, the high-yield bond default rate has recently fallen closer to historical lows, benefiting from their typical fixed-rate interest structure that locked in lower coupons for bonds issued before 2022. Strong US economic growth and loose financial conditions in 2022–24 kept overall defaults moderate and shifted their composition, with most defaults these days being distressed exchanges (dark grey bars, right chart), indicating investor confidence in borrowers' ability to generate profit going forward, albeit recognizing a need for liability restructuring.

High-yield default rates have been collapsing while loan default rates have accelerated



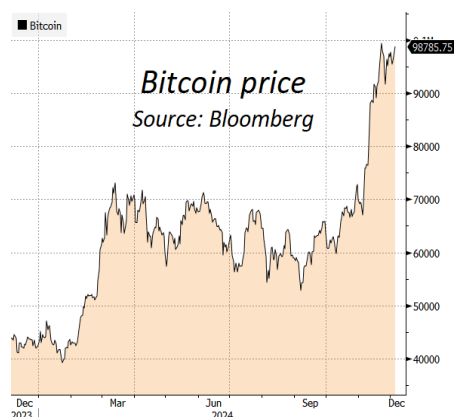
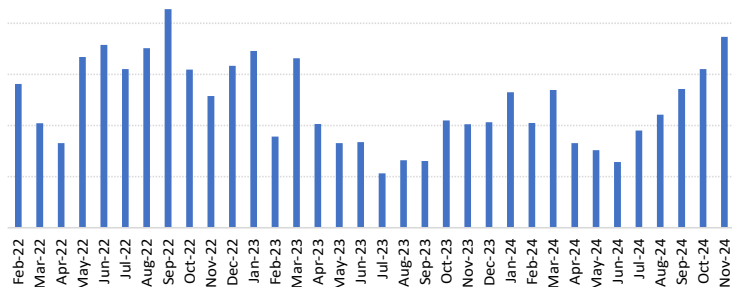
Source: J.P. Morgan, PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHSMarket

Default and distressed exchange volume totals \$69.8bn; currently ranks as the sixth largest total on record



Source: J.P. Morgan, PitchBook Data, Inc; Bloomberg Finance L.P.; S&P/IHSMarket

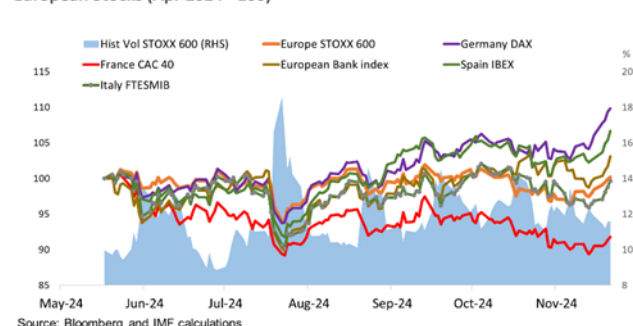
Crypto assets are bolstered by expectations of a favorable regulatory environment. President-elect Trump has nominated Paul Atkins, a former SEC commissioner, to lead the agency. Bloomberg reports that investors view Atkins as a strong advocate for digital assets, anticipating relaxed policies and enforcement for crypto firms and hedge funds. Both Bitcoin and Ethereum added around 4% in the afternoon yesterday (with the full day performance being 2% and 6%), continuing the recent rally. Additionally, Fed Chair Jerome Powell's comparison of Bitcoin to gold in his speech was interpreted by some investors as a positive signal.

Bitcoin: Monthly Traded Volume
Source: Bloomberg

Europe

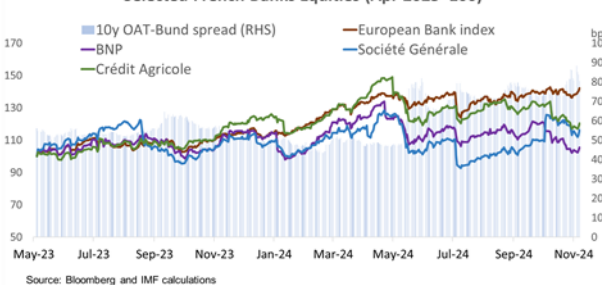
European equities edged higher this morning, mirroring Asian stock markets as investors digested the effects of political crises in France and South Korea. The Stoxx 600 advanced 0.2%, led by gains in the banking sector (1.3%), where French banks continued their rebound of yesterday. All major European bourses gained this morning, with Spain outperforming (IBEX 35 index at 1.2%) and **France's CAC 40 higher by 0.3%**.

European Stocks (Apr 2024= 100)



Source: Bloomberg and IMF calculations

Selected French Banks Equities (Apr 2023=100)



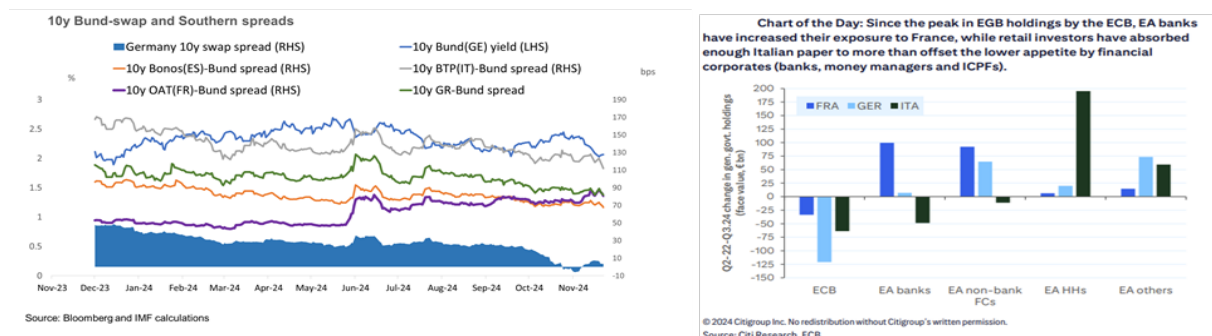
Source: Bloomberg and IMF calculations

The euro advanced (0.2%) against the dollar this morning after weak US ISM data yesterday, regaining the ground lost last night after the French vote. Christine Lagarde said yesterday that the ECB's fight against inflation is nearing an end but "we still have a bit of work to do" as the economy remains fragile due to slowing growth and geopolitical risks.

European government bond yields were little changed across tenors this morning with the 2y German Bund yield at 1.95% and the 10y Bund yield around 2.06%. Analysts at Commerzbank note that the valuation of 10y bunds appears stretched ahead of next week's likely 25bp ECB rate cut, and that further impetus would be needed to push demand for duration and inflation expectations to new lows, as the 5y5y € inflation-linked swap rates rebounded back towards 2% yesterday. Analysts at Citi believe that German banks could absorb up to €110bn of additional domestic bonds in 2025, taking their holdings from about €135bn to €245bn by the end of 2025, also, German banks could increase their holdings of non-domestic EGB by about €30bn.

Sentiment for French OATs remained benign this morning in spite of the no-confidence vote and **the collapse of the French government yesterday**, with the **10y French-German spread falling (-3bp) to 80 bps**.

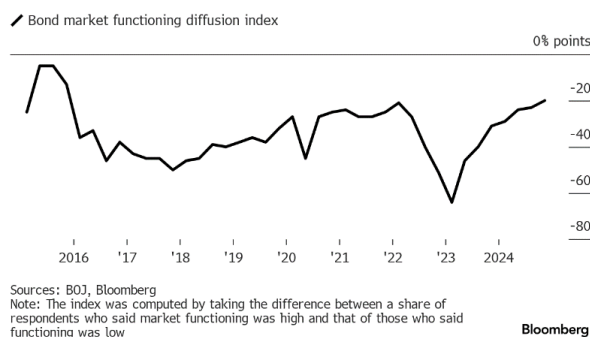
This morning Moody's said that the toppling of the French government is a credit negative as it deepens the country's political stalemate. According to the report, a new PM is likely to face the same difficulties of Barnier, and the outcome reduces the probability of a consolidation of public finances and contributes to wider risk premia and a higher cost of debt. Moody's expects France's deficit to each 6.3% of GDP in 2024, 5.3% in 2025 and 4.7% in 2026, and its debt-to-GDP ratio to rise to 115.5% in 2025 and 116.6% in 2026, from 113.3% in 2024. Analysts at Morgan Stanley see the 10y French-German spread possibly widening to around 95bp in the short term in case of stress, noting that the current level of around 80bp is already pricing-in a one-notch downgrade of France's rating



Japan

The Bank of Japan (BOJ) recently sold approximately ¥200 bn (\$1.3 bn) of futures-linked 10-year government bonds to enhance market liquidity, reducing its holdings of this tenor from 92% to 89%, according to Bloomberg data. Analysts note that this sale aims to alleviate concerns about bond scarcity and prevent potential market squeezes, with expectations for further sales of futures-linked debt in order to enhance market functioning. The BOJ still holds over 80% of four tranches maturing in 2031 and 2032 and frequently conducts bond sales through repurchase agreements, allowing participants to request reductions in the bonds they return to support liquidity. However, a recent BOJ survey indicated that most market participants see a need for improvements in key bond market parameters, such as bid-ask spreads, order quantity, and trading frequency. Today, the yen appreciated (+0.3%) after one of the most dovish BOJ board members, Nakamura, stated he did not object to an interest-rate hike, though he emphasized it should be data-dependent. The likelihood of a December rate hike, based on swaps pricing, dropped to 30% earlier after a local media report raised doubts, but rebounded to around 40% in the afternoon. The stock market gained slightly (NIKKEI 225: +0.3%).

Japan Bond Market Functioning Remains Poor But Improving



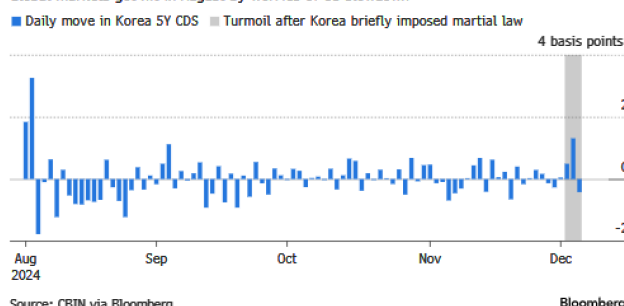
Emerging Markets

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Asian currencies mostly appreciated, led by the Malaysian ringgit (+0.6%) and the Philippine peso (+0.6%). Philippine CPI rose 2.5% y/y in November, as expected, at the low end of the central bank's 2% to 4% target, supporting further rate cuts. Asian stock markets had mixed performances, as Vietnam outperformed (+2.2%) amid optimism over a potential index upgrade by FTSE Russell in 2025 due to recent progress in regulatory reform. Despite the heightened volatility in the Korean market yesterday due to political turmoil, the Korean won was stable (-0.1%), but the stock market declined (-0.9%) amid lingering pessimism. Nonetheless, Korea's 5-year CDS rose 1.3 bp yesterday and declined 0.4 bps today, as it remains well below its highs for the year. **EMEA equities and currencies were mostly higher this morning.** Equities in South Africa (+0.8%), and Türkiye (+0.7%) were outperforming. The South African rand was firmer (+0.7%) against the dollar as Moody's reaffirmed South Africa's long-term foreign and local currency debt ratings at Ba2 with a stable outlook. On the monetary policy front, the Central Bank of Kenya will announce its policy decision later today. Consensus expectations are for a 50bp rate cut to 11.50%. Meanwhile, policymakers in Uganda and Botswana left policy rates on hold at 9.75% and 1.9% respectively. **Latin American markets experienced another quiet day on Wednesday.** Stocks gained in Mexico (+0.8%), while Colombia's equity market declined by 0.6%. Currencies depreciated in Colombia (-0.3%) and Chile (-0.3%) against the dollar.

Korea's CDS Spiked This Week, Though Less Than in August

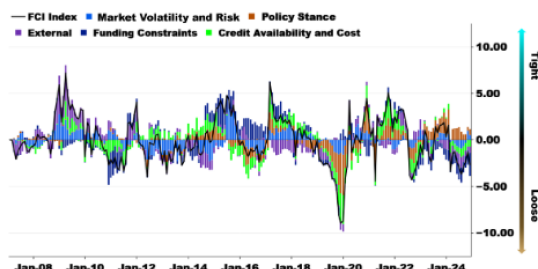
Global markets got hit in August by worries of US slowdown



China

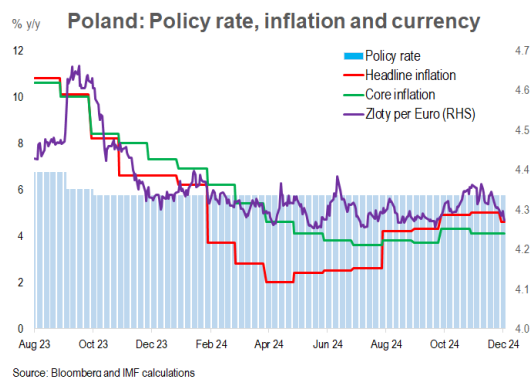
A new financial-conditions index for China indicates a slight tightening in recent months, despite recent policy easing. Constructed by Bloomberg Economics and aligned with the IMF (2023), the index is a comprehensive gauge of China's market conditions and attempts to serve as an early-warning system for growth risks. The result suggests that while China's financial conditions remain generally loose compared to historical averages, they have tightened since July due to increased risk premia and market volatility in the stock and bond markets. This analysis supports the expectation of additional monetary easing, such as a 25bp cut in banks' reserve requirement ratio (RRR) by year-end, to counteract tightening financial conditions and support economic recovery. That said, Chinese state media has cautioned against prioritizing rapid growth and indicated that boosting domestic demand, rather than stronger fiscal stimulus, will be a key focus at next week's central economic work conference amid rising trade tensions. Today, the RMB was little changed as the PBOC set the fix at 7.1879 per dollar, 778 pips stronger than the average forecast. The stock market declined slightly (CSI300: -0.2%).

Risk and Policy Fuel Tightening



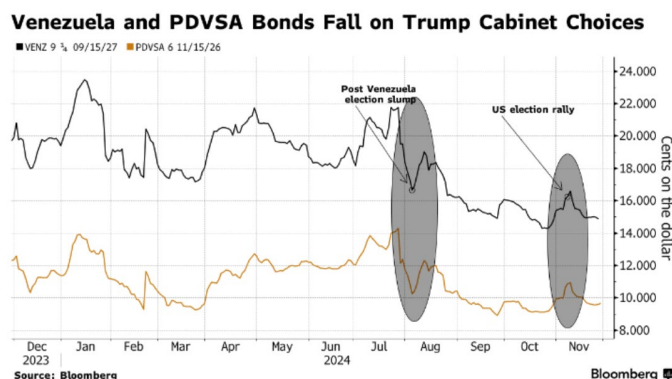
Poland

The Polish zloty advanced to a two-month high against the euro. Yesterday, the National Bank of Poland (NBP) decided to keep the policy rate unchanged at 5.75%, in with expectations, with the accompanying statement broadly unchanged. On the back of yesterday's decision, the zloty advanced against the euro to reach 4.28/€, to leave it around 1.7% stronger YTD, outperforming regional peers. Analysts at ING think that today's NBP press conference may provide further near-term support for the currency, although they note that "current valuations appear stretched". This morning, the zloty was trading around 0.2% firmer against the euro. Elsewhere, analysts at UBS expect the NBP to start cutting rates in March 2025, with the policy rate reaching 4.5% by end-2025. That said, the analysts note that the "risks remain skewed towards later cuts" given the MPC flagged still elevated core and services inflation. Attention shifts to this afternoon's press conference.



Venezuela






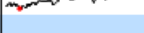

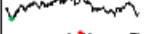





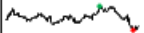
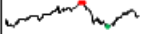




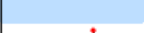




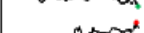
Venezuela's deeply distressed bonds have declined over the past weeks, reflecting mounting investor pessimism about prospects for normalization under Donald Trump's presidency. Sovereign bonds have dropped to around 14 cents on the dollar, while PDVSA's notes trade at 10 cents or less, as Trump's key appointments signal a revival of the hardline "maximum pressure" strategy. The passing of the BOLIVAR Act, which tightens restrictions on entities dealing with Maduro's government, has further weighed on bond prices. With Venezuela's debt in default since 2017 and over \$150 billion owed to foreign creditors, analysts warn that continued sanctions and political stalemates could worsen financial pressures and block any path toward restructuring or recovery.



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

12/5/24 8:36 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		6,088	0.6	1.5	5.3	33.3	28
Europe		4,937	0.4	3.7	1.4	10.9	9
Japan		39,396	0.3	2.7	-0.2	17.8	18
China		3,922	-0.2	1.3	-2.6	15.4	14
Asia Ex Japan		75	0.2	1.7	-3.8	16.3	12
Emerging Markets		44	0.3	1.2	-3.8	11.8	9
Interest Rates			basis points				
US 10y Yield		4.2	3	-5	-6	5	33
Germany 10y Yield		2.1	3	-4	-34	-16	6
Japan 10y Yield		1.1	1	2	13	40	46
UK 10y Yield		4.3	2	-1	-26	24	73
Credit Spreads			basis points				
US Investment Grade		116	0	-2	-9	-25	-18
US High Yield		307	-2	-3	-23	-113	-78
Exchange Rates			%				
USD/Majors		106.1	-0.2	0.0	2.6	2.0	5
EUR/USD		1.1	0.4	0.1	-3.4	-2.2	-4
USD/JPY		150.5	0.0	-0.7	-0.7	2.3	7
EM/USD		43.9	0.6	1.0	-1.3	-7.8	-9
Commodities			%				
Brent Crude Oil (\$/barrel)		72.3	-0.1	-0.7	-3.8	-3.8	-3
Industrials Metals (index)		146.4	-0.3	0.8	-3.0	8.5	3
Agriculture (index)		56.2	0.3	-1.0	0.4	-13.7	-10
Implied Volatility			%				
VIX Index (% change in pp)		13.5	0.1	-0.6	-7.0	0.7	1.1
Global FX Volatility		8.9	0.0	0.1	0.4	1.2	0.8
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		81	-3	-4	-6	-34	-22
Italy		110	-5	-12	-14	-64	-57
France		80	-3	-2	7	25	27
Spain		66	-4	-5	-4	-34	-30

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

Emerging Market Financial Indicators

Last updated: 12/5/2024 8:37 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		7.26	0.0	-0.2	-2.1	-1.6	-2.2		1.9	-3	-9	-16	-83	-69
Indonesia		15862	0.5	0.1	-0.7	-2.3	-2.9		6.9	1	0	12	26	38
India		85	0.0	-0.3	-0.7	-1.6	-1.8		7.0	-3	-15	-25	-38	-21
Philippines		58	0.6	1.4	0.8	-4.4	-4.3		0.0	-700	-708	-694	-687	-694
Thailand		34	0.5	1.0	-1.4	3.3	0.4		2.3	0	-10	-16	-64	-44
Malaysia		4.43	0.6	0.4	-1.8	5.3	3.8		3.8	1	-1	-10	2	7
Argentina		1013	-0.1	-0.4	-2.0	-64.2	-20.2		30.1	60	125	-230	-6836	-5632
Brazil		6.00	0.7	0.2	-4.2	-17.8	-19.1		14.2	-4	68	116	371	420
Chile		973	0.2	0.5	-1.8	-9.5	-9.5		5.3	0	-8	-6	-30	-4
Colombia		4410	0.2	0.1	0.0	-9.3	-12.1		10.8	-1	1	-15	18	92
Mexico		20.26	0.2	0.8	-0.7	-14.2	-16.2		10.0	2	-5	-18	51	87
Peru		3.7	0.0	0.4	0.9	0.4	-0.9		6.5	0	#####	-20	-51	-13
Uruguay		43	-0.4	-1.0	-4.2	-9.9	-10.4		9.6	-2	1	17	-8	3
Hungary		390	0.9	0.4	-4.0	-9.8	-10.9		6.3	5	14	-40	-27	41
Poland		4.05	0.6	0.8	-1.6	-1.1	-2.8		5.3	4	-2	-13	-1	28
Romania		4.7	0.4	0.0	-3.5	-2.5	-4.4		7.3	10	23	59	72	110
Russia		101.4	3.5	6.5	-3.6	-9.0	-11.8							
South Africa		18.0	0.7	0.4	-3.5	5.1	1.8		10.4	5	-1	-31	-101	-92
Türkiye		34.70	0.1	-0.2	-1.1	-16.6	-14.9		30.0	22	29	-146	455	386
US (DXY; 5y UST)		106	-0.2	0.0	2.6	1.9	4.7		4.10	3	-3	-5	-3	26

	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		3,922	-0.2	1.3	-2.6	15.4	14.3		99	-5	-6	-55	-59
Indonesia		7,313	-0.2	1.6	-1.0	3.2	0.6		104	5	13	-6	8
India		81,766	1.0	3.4	1.7	17.4	13.2		87	2	0	-38	-29
Philippines		6,691	-0.6	0.8	-6.6	6.1	3.7		91	4	13	1	11
Thailand		1,451	0.0	1.4	-1.1	4.4	2.5		0	0	0	0	0
Malaysia		1,616	0.1	1.1	-1.1	11.7	11.1		70	1	3	-18	-15
Argentina		2,216,278	-3.8	0.5	14.8	150.4	138.4		760	-1	-197	-1203	-1153
Brazil		127,476	0.0	2.3	-2.4	0.5	-5.0		227	16	17	12	12
Chile		6,619	0.0	0.5	1.4	12.1	6.8		120	2	8	-5	-5
Colombia		1,384	-0.6	-1.0	1.8	20.3	15.8		328	8	-13	33	57
Mexico		51,250	0.8	2.9	0.8	-5.3	-10.7		310	5	8	-38	-24
Peru		29,634	-0.2	-0.1	-2.4	32.5	14.2		143	1	3	2	-1
Hungary		79,227	0.2	1.1	6.6	35.6	30.7		164	1	10	-3	15
Poland		82,326	0.8	4.1	2.6	7.1	4.9		116	-1	4	13	19
Romania		16,164	-0.8	-3.0	-6.2	9.0	5.2		231	8	28	29	31
South Africa		86,697	0.4	2.3	0.1	15.3	12.7		288	4	10	-55	-20
Türkiye		9,899	0.1	2.7	14.9	22.9	32.5		262	1	-1	-94	-52
EM total		44	0.6	1.2	-3.8	11.8	8.5		369	-1	-16	5	24

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

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