GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, DECEMBER 9, 2024

LEAD EDITOR: JEFF WILLIAMS

- **The U.S. labor market is showing further signs of cooling** (link)
- **M&A in European banking sector takes the stage as investors wait for ECB on Thursday** (link)
- **Investors in Korea look to market stabilizing measures to stem declines** (link)
- **China's top leaders eased monetary policy stance, its first in 14 years** (link)
- **EM fund flows generally improved during the first week of December** (link)
- **Argentina's central bank cut their key rate amid falling inflation expectations** (link)

Mature Markets | Emerging Markets | Market Tables

Risk appetite balanced between geopolitical fears and easing policy in China

On net, equity markets in advanced economies are little changed this morning. The further rise in geopolitical fears in the Middle East following the ouster of Syrian's leader, as well as ongoing political tensions in South Korea, are weighing on sentiment. Those fears, however, have so far been somewhat balanced by expectations of a loosening policy stance in China. China's Politburo announced it would pursue a "moderately loose" monetary policy next year, moving away from the "prudent" language that had guided policy over the past 14 years. European stocks are slightly higher while US equity futures are little changed, and emerging market currencies are mixed versus the dollar. Looking ahead, the upcoming week will bring significant developments for advanced economy central banks. The ECB, the Swiss National Bank, and the Bank of Canada are all expected to cut rates this week. Additionally, US inflation data for November will be reported later this week and will further shape market expectations for the FOMC.

Key Global Financial Indicators

Last updated: 12/9/24 8:14 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		6090	0.2	1	2	32	28
Eurostoxx 50		4982	0.1	3	4	10	10
Nikkei 225		39161	0.2	2	-1	21	17
MSCI EM		44	-0.2	1	-2	12	9
Yields and Spreads					bps		
US 10y Yield		4.19	3.3	0	-12	-4	31
Germany 10y Yield		2.11	0.2	8	-26	-17	9
EMBIG Sovereign Spread		330	-2	-5	-4	-70	-53
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.0	0.3	1	-1	-8	-9
Dollar index, (+) = $ appreciation		106.0	-0.1	0	1	2	5
Brent Crude Oil ($/barrel)		71.9	1.2	0	-3	-5	-7
VIX Index (%, change in pp)		13.4	0.7	0	-2	1	1

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

This week's primary market focus will be the US CPI report on Wednesday, the last major data release before the FOMC meeting on December 17–18. The PPI report on Thursday may also influence market expectations regarding the potential Fed's rate cut in December, with the market currently assigning an 85% probability of a 25bp cut. Elsewhere, the ECB is holding a policy meeting on Thursday and is likely to lower its policy rate by 25bp. The Bank of Canada is also scheduled to make its policy decision on Wednesday, with analysts divided over whether the central bank will cut interest rate by 25 or 50 bp. Additionally, Japan's third quarter GDP will be released on Monday, followed by industrial production data on Thursday. China is set to release its November CPI and PPI on Monday.

Mature Markets

back to top

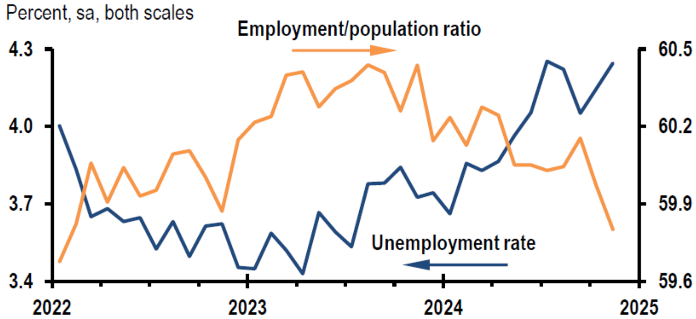
United States

The US labor market is showing further signs of cooling. Despite a decent payroll growth of 227,000 for November, the unemployment rate edged up to 4.246%, just 0.004% shy of rounding up to 4.3%. Moreover, the inflow of workers into unemployment continued to exceed the outflow, and the median duration of unemployment extended to 10.5 weeks, the highest since May 2017. Job openings per unemployed worker were at 1.11 in October, significantly below the pre-pandemic average of 1.2.

JP Morgan analysts noted that the unemployment rate had not risen further, partly due to a decline in the employment-to-population ratio in recent months, which fell to 59.8% in November, the lowest level since early 2022. Indeed, if the labor force participation rate had not declined over the last two months, the unemployment rate would have exceeded 4.6% in November.

Figure 1: The unemployment rate and employment/population ratio

Percent, sa, both scales

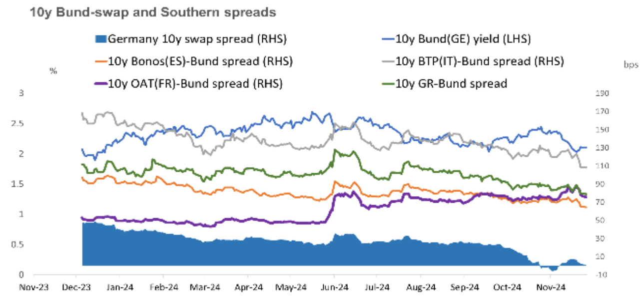


Source: BLS, J.P. Morgan

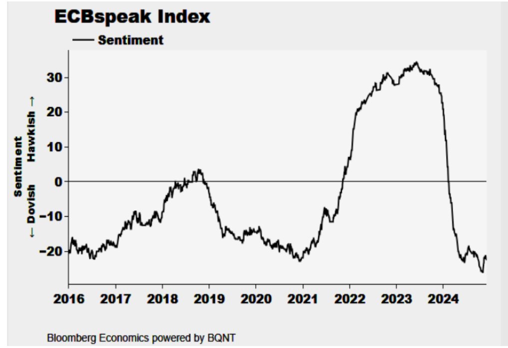
Europe

European equities traded mostly sideways this morning, as investors start the week in a cautious mood after a weekend of geopolitical turmoil in Syria and South Korea, with the Stoxx 600 index little changed and the materials (1.3%) and consumer discretionary goods (1%) sectors advancing on the back of news supporting expectations of further stimulus from easing of monetary policy in China. The energy sector also edged higher (1.5%) this morning, mirroring an increase of oil prices (Brent +1% at $71.88 per barrel). European bourses were mixed, with the CAC 40 outperforming (0.5%) in France.

The euro was little changed against the dollar this morning, and European government bond yields were also little changed. Consensus expectations are for the ECB to cut rates by 25bp at its upcoming MPC meeting on Thursday, taking the benchmark deposit rate to 3%. Analysts at Bloomberg see the easing cycle in the Eurozone to end next year with the policy deposit rate down to 2%, and the ECB cutting at every meeting through March. Meanwhile, analysts at Deutsche Bank believe the ECB will cut by 25bp on Thursday and continue to implement consecutive 25bp rate cuts until June, followed by further cuts in September and December, reaching a terminal rate of 1.50%. Money markets price-in a total 149bp of rate easing from the ECB by October 2025, against 160bp priced-in a week ago.

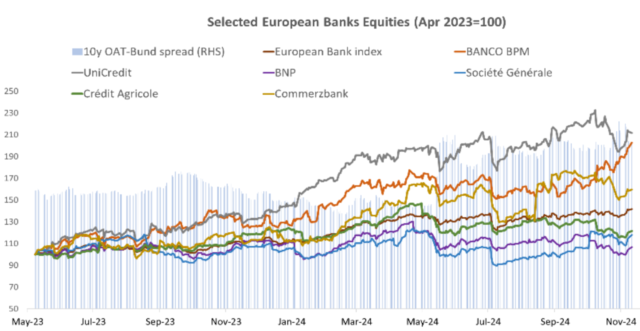


Source: Bloomberg and IMF calculations

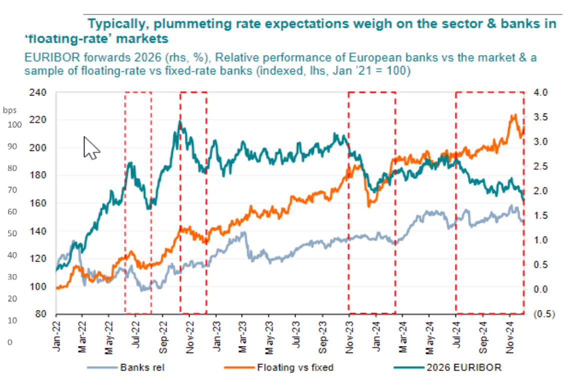


Banking sector

The European banking sector edged higher this morning (+0.7%) and is heading to outperform the overall market for the fourth consecutive year (Stoxx 600 banks index at 27.2% YTD vs Stoxx 600 at 9.3% YTD). French banks continued to edge higher today after closing last the week in the green in spite of the collapse of the government, with BNP's shares up by 2%, Societe Generale at 2.1% and Credit Agricole up by 0.8%. Last Friday Credit Agricole announced it bought financial contracts that could raise to 15.1% its stake (currently at 9.9%) in the Italian Banco BPM, which is subject to a €10.1bn hostile takeover bid by UniCredit. Credit Agricole said the move is consistent with its strategy as a long-term investor and partner of Banco BPM, and that it would apply for authorization from the ECB to increase its stake up to 19.9% but ruled out a counter tender offer for Banco BPM. Analysts at Bloomberg see the move as seeking to cement Credit Agricole's position as Banco BPM's largest shareholder in reaction to UniCredit's all-stock offer for Banco BPM, which rebuked the bid claiming it undervalued the bank. Equities of Banco BPM rose this morning by 1.7% while those of UniCredit declined by 0.9%. **UniCredit increased to 21% its stake in Commerzbank earlier this year, but the attempt to take control of the bank is facing political opposition.** Analysts at BNP maintain a constructive view on the European banking sector for 2025, noting that the fall in the expected ECB terminal rate has resulted in a rotation out of Eurozone retail banks, but that European diversified savings banks and "fixed-rate" lenders will outperform in the medium term compared to the more rate-sensitive banks in Spain, Sweden as well as larger Italian banks. Analysts at Jefferies stress meaningful EPS revisions for Italian banks through 2024 and see this continuing in 2025, they remain constructive on the sector as consolidation is envisaged to increase efficiency while the impact of lower rates will be almost offset via other P&L lines.



Source: Bloomberg and IMF calculations



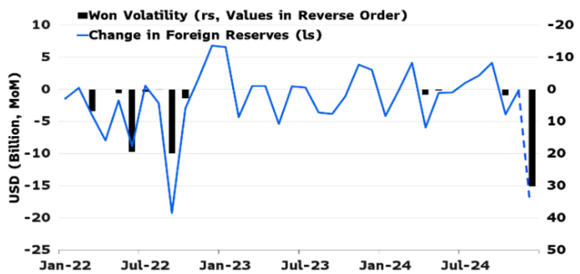
Source: Bloomberg, BNP Paribas Exane estimates. Note: floating-rate banks = AIB, Caixabank, Intesa, Unicredit. Fixed-rate banks: KBC, ING, Credit Agricole, Lloyds.

Korea

Investors in Korea look to market stabilizing measures to arrest declines as losses deepen. Korean markets have extended their declines amid the ongoing political stalemate. Opposition lawmakers said they would push for another impeachment vote on President Yoon after Saturday's failed impeachment motion.

The Kospi Index has lost 5.6% since the short-lived martial law from last Wednesday, while the small-cap, tech-heavy Kosdaq Index has slid by more than 9%. Market analysts noted that retail investors have cashed out more than 1 trillion won over the two sessions spanning last Wednesday and Thursday. Meanwhile, the won has weakened more than 2% against the dollar. Market participants noted that the won would likely have depreciated more if the BOK had not intervened in the market to support the currency. BOK Governor Rhee has said the BOK does not aim for a specific exchange rate level but focuses on mitigating excessive volatility in the market. A measure of FX volatility over a 5-day period is now more than twice the annual average, raising expectations for BOK intervention. For the equity market, a key focus is on the KRW 10 tn ($7 bn) stock stabilization fund, which, according to the authorities, is ready to be mobilized “immediately” when needed. The most recent deployment occurred in 2008. That said, analysts also noted that the stock stabilization fund, while helpful in smoothing out market volatility, will not change investors’ perception in the absence of a meaningful resolution to the current political crisis in Korea. The Korean won weakened by as much as 1.1% intraday to KRW 1,438.30 per USD before stabilizing at KRW 1434.6 (-0.8%).

FX Intervention Indicator and BOK’s Reserves



Sources: Bank of Korea, Bloomberg Economics. Notes: Won volatility represents the sum of volatility when it exceeds a threshold.

Emerging Markets

back to top

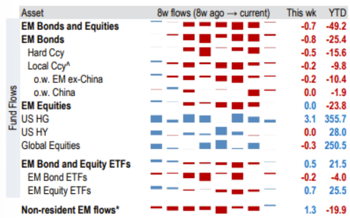
Asian currencies suffered broad-based losses, with the Korean won underperforming (-0.8%). In equities, Korean markets extended declines from last week, with the Kospi down 2.8% and the tech-heavy Kosdaq index more than 5% lower on the day. Chinese stocks slid modestly (-0.2%) and the RMB was little changed as CPI decelerated unexpectedly in November. The headline CPI rose 0.2%, y/y, lower than expected and the lowest increase since June, while core inflation picked up slightly. **EMEA equities and currencies were mostly higher this morning on the back of an announced easing in China’s monetary policy stance and developments in the Middle East which saw the sudden collapse of the Assad regime in Syria.** According to Bloomberg data, the Israeli shekel advanced for a third day against the dollar, with the currency up as much as 0.5% in the early morning. Over the past five days, the shekel has gained almost 2.5% against the dollar on developments in the Middle East. Israeli equities were broadly unchanged this morning, although they had advanced yesterday. This morning, equities in Türkiye (+1.5%) were outperforming, while those in Czechia (-0.1%) were underperforming. CEE currencies were mostly trading firmer against the euro. The Romanian leu was stable against the euro after the country’s constitutional court annulled the results of the first round of the presidential elections, with the process to be restarted. Meanwhile, the Egyptian pound weakened to a record low against the dollar, falling by 1.2% in early morning trade on the offshore market to 50.59/$, according to Bloomberg data. **Latin American currencies were mixed, and equities closed in the red Friday**. On the currency front, the Brazilian real (-1.3%) and Chilean peso (-0.5%) underperformed other emerging markets. Equities retreated across the region, led by Brazil (-1.5%) and Colombia (-1.3%).

EM Fund Flows

EM fund flows generally improved during the first week of December. EM bond fund outflows eased (-$756mn from -$2.7bn), and equity flows (+39mn from -$4.3bn) turned slightly positive. Both hard and local currency bond funds experienced a decline in outflows. Hard currency outflows were driven by broad EM funds (-$447mn) and Asia ex-Japan funds (-$101mn). Equity fund inflows were driven by ETFs(+$734mn), but partially offset by non-ETF outflows (-$695mn). Regionally, EMEA (+$3mn) experienced marginal inflows, while Asia ex-Japan (-$229mn) and Latam (-$115mn) saw outflows.

Figure 1: Weekly cross-asset flows

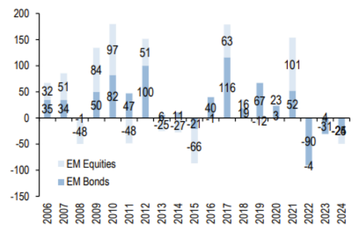
USD billion



Fund Flows — Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-0.7	-49.2
EM Bonds		-0.8	-25.4
Hard Ccy		-0.5	-15.6
Local Ccy^		-0.2	-9.8
o.w. EM ex-China		-0.2	-10.4
o.w. China		0.0	-1.9
EM Equities		0.0	-23.8
US HG		3.1	355.7
US HY		0.0	28.0
Global Equities		-0.3	250.5
EM Bond and Equity ETFs		0.5	21.5
EM Bond ETFs		-0.2	-4.0
EM Equity ETFs		0.7	25.5
Non-resident EM flows*		1.3	-19.9

Figure 2: EM bond and equity fund flows

USD billion



*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.*

China

China's top leaders announced an ease in the monetary policy stance and pledged more fiscal support for the economy. China's Politburo, a governing body comprised of the ruling party's 24 most senior officials and led by President Xi Jinping, announced a series of changes to its policy stance. For the first time in roughly 14 years, the Politburo indicated that it would embrace a "moderately loose" strategy for monetary policy in 2025. Moreover, the ruling body also pledged stronger fiscal support, indicating that it will be "more proactive," compared to "proactive" in previous statements. According to the official Xinhua News Agency, officials will also step up "extraordinary counter-cyclical policy adjustment," and pledged to "stabilize property and stock markets," suggesting more tools could be unleashed to boost the economy. While China has gone through several monetary policy cycles, it has been largely guided by a "prudent" policy stance since 2011.

China's Monetary Policy Stance Over Past Three Decades

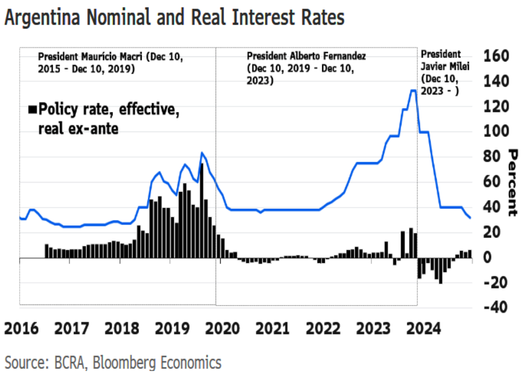
Year	Stance	What prompted the change
2011-2024	Prudent	Rising inflation
Nov. 2008-2010	Moderately loose	Global Financial Crisis
Jan. 2008-Nov. 2008	Tight	Rising inflation
1998-2007	Prudent	Asia Financial Crisis
1993-1997	Moderately tight	Rising inflation

Source: Government websites, Bloomberg — Bloomberg

Looking ahead, senior leaders are to convene for the annual Central Economic Work Conference (CEWC) on Wednesday. The two-day meeting is expected to offer policy direction for growth. Expectations for strong policy support have increased following today's Politburo announcement. Market participants will look for signals that suggest policymakers' commitment to build on their growth-boosting measures, including whether the 2025 growth goal will be close to the 2024 target of around 5%. If the target remains unchanged, it could suggest stronger policy support ahead. If the CEWC does not offer any clarity on policy directions, market participants will have to wait until next March for guidance from the National People's Congress convention.

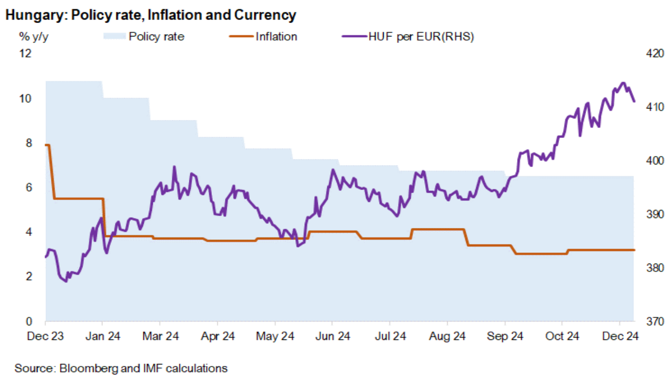
Argentina

Argentina's central bank cut its key rate amid falling inflation expectations. The central bank cut the key rate to 32% from 35%. The decision marks over 100 percentage points of cuts since President Milei took office, when interest rates were at 133%. According to the central bank's survey of economists, expected annual inflation over the next 12 months will slow to 29.4%, down from 35% expected a month ago. Year-over-year CPI fell to 193% in October, down from its 289.4% peak experienced in April. November inflation is expected to be released on December 11.



Hungary

Hungarian forint gains as Fitch raises outlook to stable from negative. On Friday, after market close, Fitch maintained Hungary's long-term debt rating of BBB, but raised the outlook to stable from negative citing "easing of policy uncertainty and improved coherence between fiscal and monetary policies" among the drivers for the change in outlook. The ratings agency also expects that political developments will likely continue to limit Hungary's full access to EU funds. Last week, Moody's downgraded its rating outlook for Hungary to negative, citing reduced chances of the current government being able to access EU funds. This morning, the forint was trading firmer (+0.6%) against the euro, although the currency is around 7% weaker YTD.



Ghana

Ghana's dollar denominated bonds advance on election outcome. According to Bloomberg data, the yield on Ghana's dollar bond due in July 2035 declined by around 8bp to trade at 9.54% following the outcome of Sunday's general election. Mahamudu Bawumia, the ruling party's candidate, conceded defeat yesterday to opposition leader John Mahama. Per Bloomberg data, Ghana's July 2035 bond was the third-best performing hard currency bond in an index tracking emerging market and frontier hard currency sovereign debt.

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.

Global Financial Indicators

12/9/24 8:14 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		6,081	0.2	0.6	1.4	32.1	27
Europe		4,982	0.1	2.8	3.7	10.1	10
Japan		39,161	0.2	1.7	-0.9	21.2	17
China		3,967	-0.2	0.5	-3.3	16.7	16
Asia Ex Japan		75	-0.2	1.2	-1.9	16.6	13
Emerging Markets		44	-0.2	1.4	-1.8	12.4	9
Interest Rates			basis points				
US 10y Yield		4.2	3	0	-12	-4	31
Germany 10y Yield		2.1	0	8	-26	-17	9
Japan 10y Yield		1.1	-1	-3	4	29	44
UK 10y Yield		4.3	-1	6	-17	23	73
Credit Spreads			basis points				
US Investment Grade		118	0	1	4	-21	-16
US High Yield		310	1	0	7	-101	-75
Exchange Rates			%				
USD/Majors		106.0	-0.1	-0.4	1.0	1.9	5
EUR/USD		1.1	0.0	0.6	-0.9	-1.9	-4
USD/JPY		151.0	0.6	0.9	-1.8	3.3	7
EM/USD		44.0	0.3	1.1	-1.5	-7.6	-9
Commodities			%				
Brent Crude Oil ($/barrel)		71.9	1.2	0.2	-2.3	-3.3	-3
Industrials Metals (index)		147.2	1.1	1.9	-0.3	8.8	3
Agriculture (index)		57.6	0.2	3.5	1.1	-9.9	-8
Implied Volatility			%				
VIX Index (%, change in pp)		13.4	0.7	0.1	-1.5	1.1	1.0
Global FX Volatility		8.7	0.1	-0.2	0.6	0.8	0.6
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		79	-1	-11	-11	-40	-25
Italy		108	-1	-15	-21	-72	-60
France		76	-1	-13	0	21	22
Spain		64	-1	-9	-10	-38	-33

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

Emerging Market Financial Indicators

Last updated: 12/9/2024 8:16 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		7.26	0.1	0.1	-0.7	-1.2	-2.3		1.9	1	-5	-14	-83	-69
Indonesia		15867	-0.1	0.2	-1.1	-1.5	-2.9		6.9	2	7	10	28	39
India		85	0.0	0.0	-0.4	-1.6	-1.8		7.1	-5	3	-15	-32	-16
Philippines		58	-0.5	1.2	1.0	-4.1	-4.5		0.0	-700	-708	-694	-687	-694
Thailand		34	1.0	2.3	2.4	5.9	1.5		2.3	0	-4	-16	-58	-43
Malaysia		4.43	-0.1	0.8	-0.3	5.8	3.8		3.8	0	-2	-10	4	5
Argentina		1016	-0.3	-0.4	-1.7	-64.0	-20.4		29.5	-57	-4	-358	-7115	-5687
Brazil		6.05	0.6	0.3	-4.8	-18.4	-19.8		14.6	28	60	152	408	453
Chile		970	0.6	0.9	1.1	-8.9	-9.1		5.3	-1	-3	-13	-21	-4
Colombia		4377	0.7	1.9	-0.3	-9.0	-11.5		10.8	-1	-8	-20	26	91
Mexico		20.16	0.2	1.2	0.9	-13.8	-15.8		10.0	5	9	4	74	93
Peru		3.7	0.2	1.1	1.7	1.0	-0.3		6.5	-3	-4	########	-41	-16
Uruguay		44	-0.2	-0.9	-3.0	-9.5	-10.7		9.6	-3	-2	9	-7	3
Hungary		389	0.5	1.4	-1.1	-8.6	-10.8		6.3	2	14	-55	-12	39
Poland		4.03	0.1	1.2	1.6	-0.1	-2.4		5.4	-1	16	-11	26	36
Romania		4.7	-0.1	0.7	-0.8	-1.9	-4.3		7.1	-15	-15	27	54	85
Russia		100.5	-0.2	6.0	-4.3	-9.5	-11.0							
South Africa		17.8	1.1	1.7	0.6	7.0	3.0		10.4	-1	8	-40	-106	-92
Türkiye		34.82	-0.2	-0.3	-1.4	-16.8	-15.2		30.1	-11	41	-134	448	396
US (DXY; 5y UST)		106	-0.1	-0.4	0.9	1.9	4.6		4.06	3	-2	-13	-18	22

	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		3,967	-0.2	0.5	-3.3	16.7	15.6		100	2	-1	-55	-58
Indonesia		7,438	0.7	5.5	2.1	3.9	2.3		102	0	14	-9	6
India		81,508	-0.2	1.6	2.5	16.7	12.8		85	3	-2	-33	-31
Philippines		6,681	-0.7	-0.9	-4.3	7.2	3.6		87	-1	12	-2	7
Thailand		1,448	-0.3	1.4	-0.6	4.8	2.2		0	0	0	0	0
Malaysia		1,611	-0.1	1.0	-0.6	11.8	10.8		73	6	8	-14	-12
Argentina		2,202,444	-0.4	-2.5	12.1	133.8	136.9		772	13	-96	-1143	-1141
Brazil		125,946	-1.5	0.6	-1.5	-0.9	-6.1		224	2	13	7	9
Chile		6,679	-0.2	0.6	2.4	11.9	7.8		118	-2	6	-11	-7
Colombia		1,377	-1.3	-1.5	3.1	20.2	15.2		324	-4	-12	25	53
Mexico		51,349	-0.8	3.1	-1.0	-5.6	-10.5		302	-6	11	-52	-32
Peru		29,468	-0.5	-0.1	-2.7	33.8	13.5		138	-4	-1	-10	-6
Hungary		80,045	1.1	2.4	5.0	36.4	32.0		159	-8	2	-7	10
Poland		82,985	0.2	2.4	0.9	7.6	5.8		114	-4	3	6	17
Romania		16,963	1.9	3.1	-2.4	12.8	10.4		223	-14	15	23	22
South Africa		87,262	0.4	1.8	2.5	18.3	13.5		280	-9	3	-64	-28
Türkiye		10,244	1.6	5.8	11.5	29.4	37.1		259	-3	4	-101	-55
EM total		44	1.7	1.4	-1.8	12.4	9.1		365	-6	-10	6	20

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

back to top