GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, JANUARY 13, 2025

LEAD EDITOR: SANJAY HAZARIKA

- **US Treasury yields surge despite Fed rate cuts** (link)
- **PBOC takes action to address mounting pressure on yuan** (link)
- **Top US corporations outcompete their European peers** (link)
- **Japanese retail investors head for the exits** (link)
- **Outflows from emerging market funds accelerate** (link)
- **Appendix: Key market trends of 2024** (link)

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Markets sell off across the globe

Markets were down across the globe this morning after Friday's blowout US jobs report pushed world interest rates higher. The benchmark 10-year US Treasury yield was as high as 4.80% in early trading, within striking distance of the post-2007 high of 5% reached in October 2023. There is widespread speculation that the Fed may have already arrived at its terminal rate and that the next move could potentially be a rate hike. As a result, this week's US inflation data takes on even more significance than usual. The People's Bank of China took action to address the weakening yuan, which is at its weakest level since 2008, while the local equity market entered bear market territory. In other news, China's trade surplus for 2024 came in at close to one trillion dollars as importers and exporters worldwide sought to complete transactions ahead of potential tariffs from the incoming US administration. Meanwhile, oil prices hit their highest level in four months after the US government announced new sanctions to target Russia's tanker fleet.

Key Global Financial Indicators

Last updated: 1/13/25 7:41 AM	Level Last 12m	Level Latest	Change from Market Close 1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5827	-1.5	-1	-4	22	-1
Eurostoxx 50		4938	-0.8	-1	-1	10	1
Nikkei 225		39190	-1.0	-2	-1	10	-2
MSCI EM		41	-1.7	-2	-7	5	-2
Yields and Spreads				bps			
US 10y Yield		4.77	0.6	14	37	83	20
Germany 10y Yield		2.60	0.8	16	35	42	24
EMBIG Sovereign Spread		319	1	0	-6	-83	-6
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		42.7	-0.3	-1	-2	-11	0
Dollar index, (+) = $ appreciation		110.1	0.4	2	3	7	1
Brent Crude Oil ($/barrel)		81.1	1.7	6	9	4	9
VIX Index (%, change in pp)		21.4	1.9	5	8	9	4

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

As market participants come to grips with the very strong US jobs report, earnings season begins this week with the big US banks among the first to report. However, the main focus will be on the US PPI report on due tomorrow and the CPI report on Wednesday. Thursday's retail sales data could also move markets. US economic data have been improving recently, putting upward pressure on interest rates. The euro area has also had to endure higher interest rates, but without the benefit of positive data. Reports on euro area industrial production and CPI could have an impact on markets. China will report GDP and industrial production data this week, while the UK will report on retail sales. Central bank meetings this week include South Korea (expected to cut by 25 bps to 2.75%), Poland (expected to stay on hold at 5.75%) and Indonesia (expected to stay on hold at 6%).

Mature Markets

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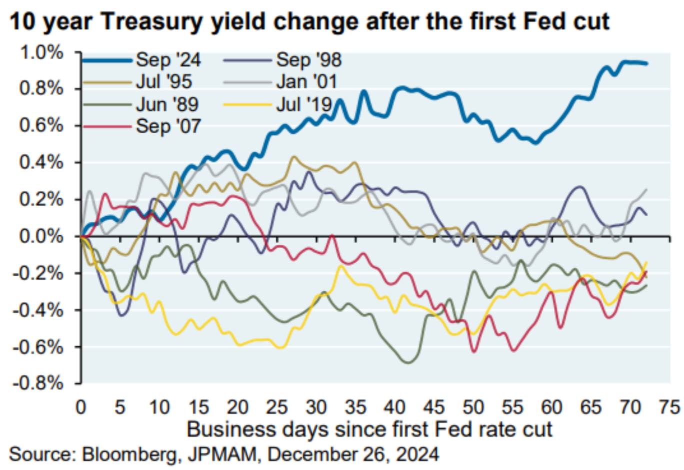
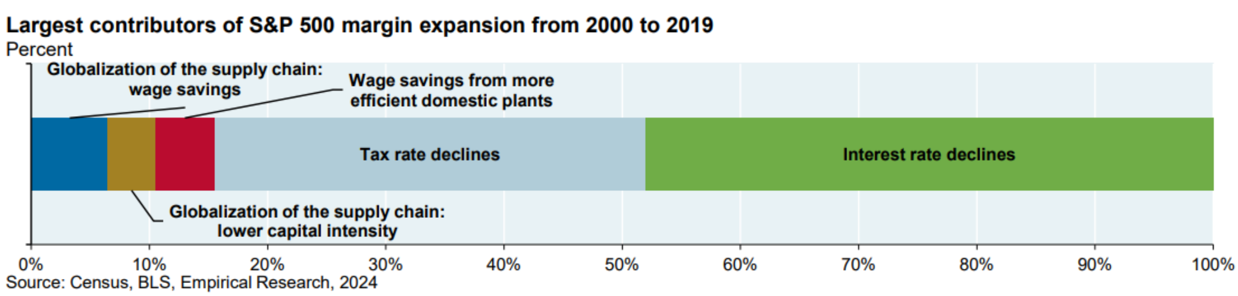
United States

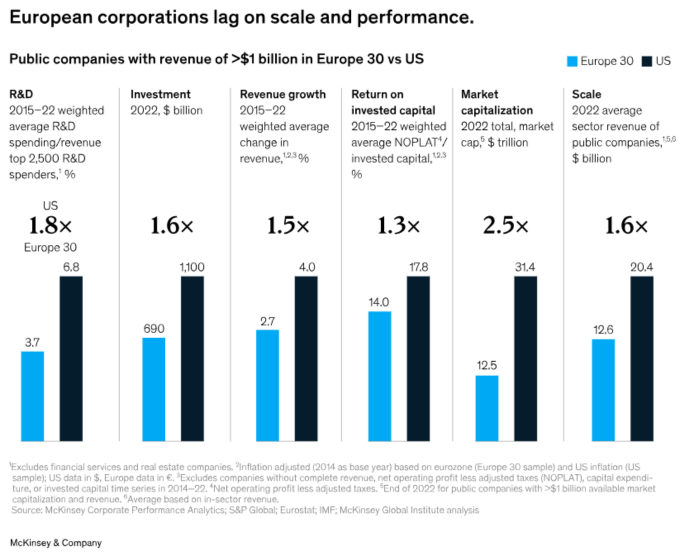
US Treasury yields have surged despite 100 bps of Fed rate cuts, a highly unusual outcome. Since the recent low of 3.62% on September 16, the benchmark 10-year Treasury yield has risen by 115 bps. In prior cycles, Treasury yields declined significantly in the days after the first Fed rate cut, or at most were slightly higher, so the current situation presents a sharp contrast. The rise in yields was intensified by Friday's blowout jobs report, which was much better than expected. According to analysts, previous rate cut cycles were started because the economy was in recession or faced a major shock like the global financial crisis or Covid. The current rate cut cycle is occurring while the economy remains strong, which accounts for the rise in yields.



Some speculate that the terminal rate has already been reached, with the Fed Funds rate at 4.25–4.50%, although the Fed Funds futures market still expects one more rate cut in 2025. However, some are worried that the Fed may actually have to hike again if inflation shows signs of getting out of hand. The sharp equity selloff on Friday partially reflected fears of a more hawkish Fed. In general, higher rates are a major risk factor for equities; recent history shows that interest rate declines were the largest contributors to margin expansion for the S&P 500.

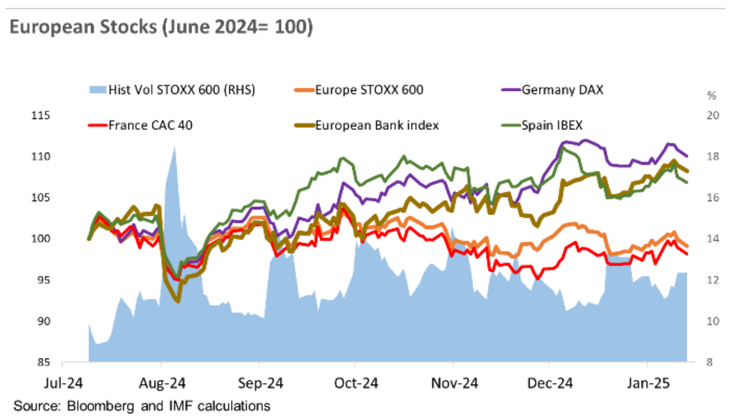


Top US companies outcompete their European peers on multiple fronts, according to analysis by McKinsey. This could explain why the price-earnings ratios of US companies are so much higher. US companies spend more on research and development, and they invest much more than their European counterparts. Their revenue growth is much faster and they deliver superior returns on invested capital. As a result, US companies are much larger in terms of market capitalization and the scale of their operations. As a result, not a single European company has a market capitalization of one trillion dollars. The leading US corporations are technology focused and are energy independent, while European companies are heavily reliant on imported energy. The US technology focus means that its companies are far ahead in critical areas such as artificial intelligence. In addition, their higher returns on equity enable them to benefit from a much lower cost of capital.



Europe

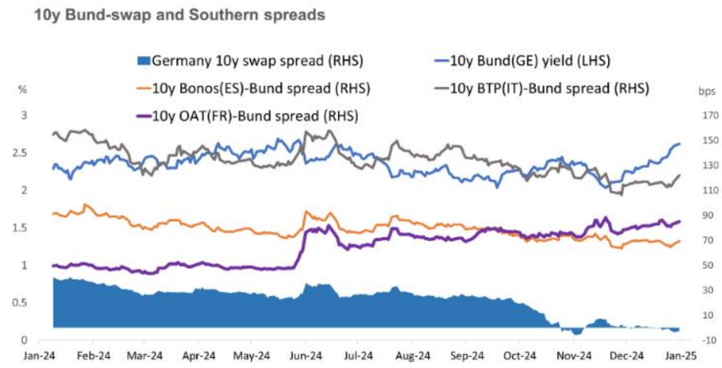
European equities edged lower today, reflecting losses in Asian stock markets in early morning trading and the risk off tone in markets after Friday's strong US nonfarm payrolls data. The Stoxx 600 index was -0.9% lower, dragged down by losses in the industrial sector, with all major European bourses trading in the red this morning.



European government bond yields were little changed across tenors this morning after having risen last week in step with US Treasuries, with the yields on 10y Bund at 2.60% today (+ 25 bps YTD). Southern spreads edged higher as the French-German 10y sovereign spread reached 85 bps (+2bps) and the Italian BTP-Bund 10y spread increased to 123 bps (+5bps) this morning.

The euro continued to weaken against the dollar this morning (-0.5%), trading at $1.0192/€. ECB Chief Economist Philip Lane said the ECB will continue to lower its key interest rate at a pace that ensures that inflation cools; he emphasized the need for a balanced approach, avoiding being "too aggressive" or "too cautious," to control services inflation without keeping rates too high for too long.

At the end of 2024, money markets were pricing in around 115bps of easing from the ECB by December 2025, this has been pared back to around -90bps as of today, with analysts pointing to several factors behind this repricing, including fears of inflation due to rising energy prices, a weaker currency, and the threat of US tariffs.

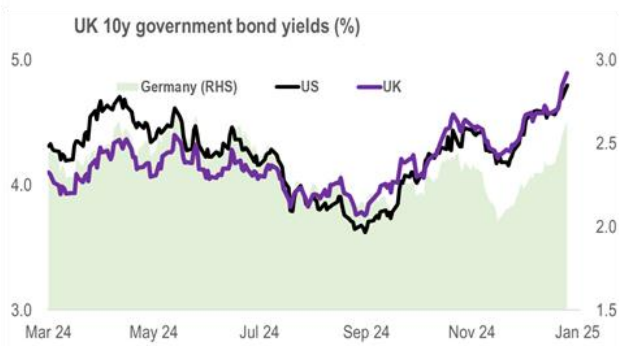


Source: Bloomberg and IMF calculations

United Kingdom

Local yields remained very high and the pound weakened further. When the budget was announced last year, the 30-year gilt yield was 4.85%, but it is trading today at 5.42%, the highest level since 1998. Most analysts expect that the government will have to reduce its spending plans if it is to abide by the fiscal rules currently in place. Money markets have significantly scaled down expectations of rate cuts from the Bank of England in the course of 2025, moving to price in about 50bps of easing by December 2025 to a terminal implied policy rate of 4.25% from the current level of 4.75%.

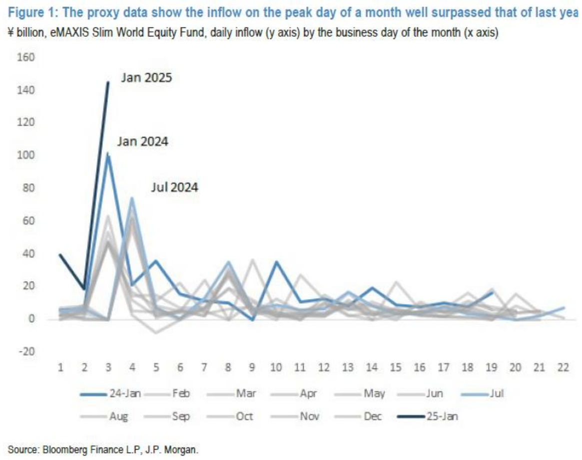
Source: Bloomberg and IMF calculations



Source: Bloomberg and IMF calculations

Japan

High-frequency data pointed to accelerating outflows from Japanese retail investors in early 2025. According to estimates by JP Morgan analysts, the peak outflow from Japan's Nippon Individual Savings Account (NISA) on the third business day of January 2025 was significantly larger than last year, contributing to the USD/JPY rally, increasing inflation pressure, and potentially prompting the Bank of Japan (BoJ) to consider an earlier rate hike. Nomura analysts believe that the sharp increase in NISA-related flows is likely due to the substantial rise in NISA accounts last year and should be closely monitored to assess the sustainability of yen-selling flows from these accounts. Meanwhile, market expectations regarding the upcoming BoJ policy meeting have been mixed. Nomura expects a January hike, pointing to recent currency weakness combined with a regional branch managers survey that implies ongoing reflation. The Japanese markets were closed today for a public holiday.



Emerging Markets

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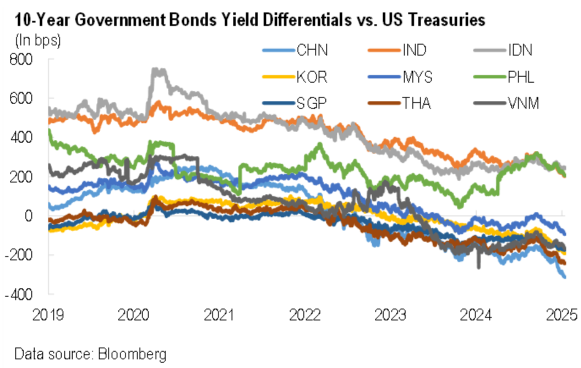
EMEA equities were mostly lower, currencies weakened while local currency bond yields were mixed this morning. South African equities were underperforming (-1.6%) and the South African rand was weakening against the dollar (-0.4%). **Most Asian currencies weakened** as higher US yields continued to fuel dollar strength following stronger-than-expected US jobs market data. The Indian rupee (-0.6%) depreciated past 86/USD to its weakest level on record, while the Indonesian rupiah (-0.6%) and the Philippine peso (-0.6%) also weakened. **EM Asian equities extended their decline** (-1.8%) as market sentiment was weighed down by reduced expectations of Fed interest rate cuts. Equities in the Philippines (-2.4%) and Taiwan POC (-2.3%) posted major losses. **Latin American currencies took notable losses on Friday amid broader risk off sentiment following the US data release**. The Brazilian real, which has been under pressure on concerns over fiscal discipline, sold off the most, declining by -1.2%, while the Mexican peso depreciated -1%. Most major regional equity markets also traded lower.



EM fund flows

Outflows from EM Funds intensified to -$3 bn last week from $1.9 bn the week before. This acceleration in outflows was driven by withdrawals from hard-currency bond funds, which increased by about -$0.7 bn to -$1.1 bn. Outflows from local currency bond funds also rose marginally. The overall outflows from bond funds were -$1.3 bn for the week. EM equity funds outflows also accelerated and reached -$1.7 bn as withdrawals from ETFs continued to rise. With this, the EM funds have seen net withdrawals of -$4.9 bn in 2025.

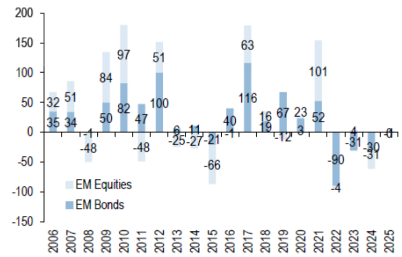
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-3.0	-4.9
	EM Bonds		-1.3	-1.8
	Hard Ccy		-1.1	-1.5
	Local Ccy^		-0.2	-0.2
	o.w. EM ex-China		-0.1	-0.2
	o.w. China		-0.1	-0.1
	EM Equities		-1.7	-3.1
	US HG		3.5	1.4
	US HY		0.7	0.3
	Global Equities		4.4	26.4
	EM Bond and Equity ETFs		-1.8	-2.5
	EM Bond ETFs		-0.7	-0.8
	EM Equity ETFs		-1.0	-1.7
	Non-resident EM flows*		1.5	1.6

Figure 2: EM bond and equity fund flows

USD billion

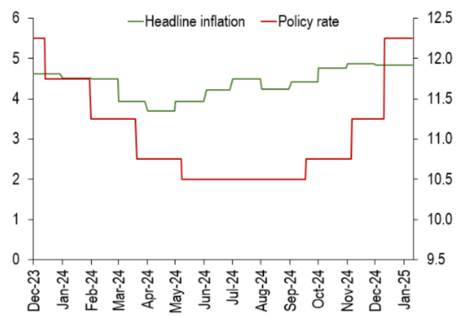


*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. *Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.*

Brazil

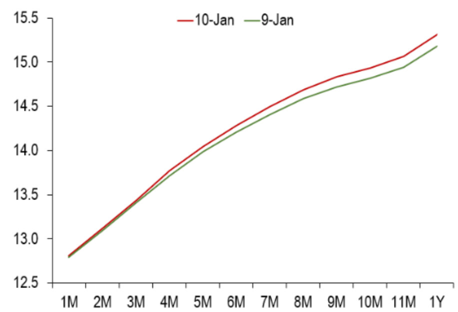
December inflation printed in line with market expectations at 4.83% y/y, remaining above the central bank's target band. In a related note to the National Monetary Council, the country's central bank cited strong economic activity and currency depreciation as the key drivers of inflation, while maintaining its hawkish guidance on monetary policy tightening to anchor inflation expectations. Notably, inflation in Brazil has been rising since mid-2024, and had stayed above the upper limit of target band since October. Consequently, the central bank embarked on monetary tightening cycle in Sept. 2024 and increased the pace of tightening to 100bps in early Dec 2024. Meanwhile, the drivers of inflation remain challenging, with strong economic activity, and ongoing currency depreciation. Local equity markets traded lower on Friday, while swap rates inched higher.

Brazil - Headline inflation and poilcy rate (percent)



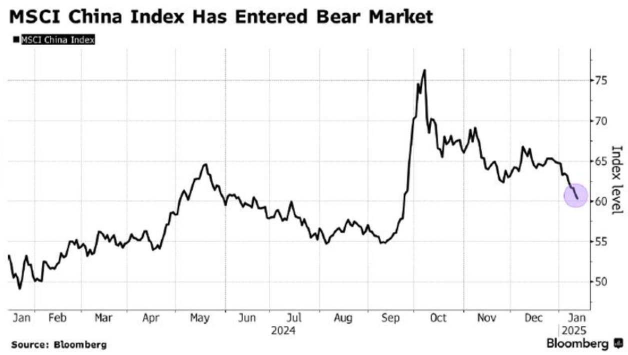
Source: Bloomberg

Swap rate (percent)



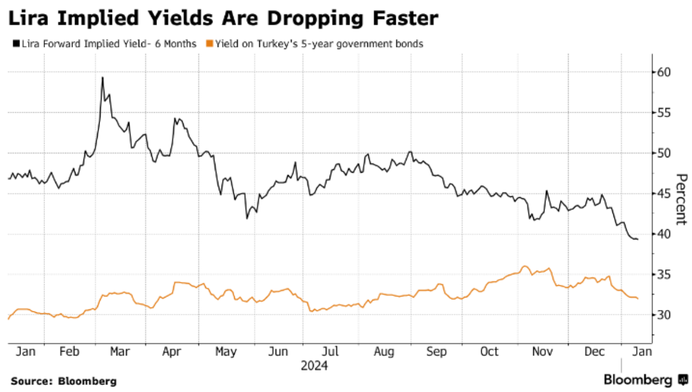
China

The People's Bank of China (PBC) raised the macro-prudential parameter for cross-border funding for companies and financial institutions to 1.75 from 1.5, potentially allowing entities to borrow more from overseas amid mounting pressure on the RMB. The move came after the onshore RMB depreciated past 7.33/US$ last week, trading close to the weak side of its trading band. This depreciation reflects widening yield differentials between Chinese government bonds and US Treasuries, prospects of additional trade tariffs from the US, and a shift in expectations towards fewer Fed rate cuts. Analysts regard today's PBC move as a strong signal of the central bank's stance to prioritize RMB stability. This is also evidenced by the 1,565 pips stronger RMB fixing relative to market expectations today, the scheduled issuance of a record high amount of RMB-denominated central bank bills in Hong Kong last Wednesday, and verbal intervention from a PBC statement that the authorities will firmly correct procyclical behaviors in the market and resolutely prevent risks from excessive forex adjustments. OCBC analysts believe that the medium-term success of this strategy will depend on economic fundamentals, while ANZ analysts suggests that the PBC may eventually need to allow the RMB to weaken if the US imposes more tariffs against China, despite the temporary stabilization of the RMB due to the PBC measures. Today, **Chinese equities extended their decline** (CSI 300: -0.3%), with year-to-date losses amounting to 5.4%. The MSCI China Index has declined about 20% from its October peak, entering bear market territory.



Türkiye

Turkish government bond yields ease following the first rate cut and a downside surprise in inflation. At its December 2024 policy meeting, the central bank of Türkiye (CBRT) surprised consensus and started its easing cycle with a larger-than-expected 250bps rate cut to take the repo rate to 47.5% (versus consensus of 48.25%). Since then, the December inflation print has also showed headline inflation easing more than expected (44.4%y/y versus expected 45.2% from 47.1%). Against this backdrop, yields on Turkish government bonds have eased, with the yield on 2y government bonds easing to around 40% (from 44% in December) and the yield on 5y notes easing to 31.9% (from around 36% in November), while the lira's forward implied 6-month yield (an indicator of the lira's offshore funding costs) has also eased according to Bloomberg data. Several analysts expect another 250bps rate cut in January, and forecast the policy rate at 30% by end-2025.



Appendix: Global Markets in 2024

Global markets enjoyed a very strong performance in 2024. Many equity indexes hit record highs in both advanced economies and emerging markets, while credit spreads in both sets of countries were generally tighter. US exceptionalism was a key theme in 2024 as US equities did much better than most global peers. Volatility was generally low for most of the year except for the unwinding of the Yen carry trade in August which saw an extremely large surge in volatility and a smaller spike after the FOMC meeting on December 18. The market gains came in spite of market headwinds such as a very strong dollar and rising global interest rates.

A few countries stood out as underperformers, such as France, which experienced a great deal of economic turbulence and where the CAC-40 ended down 2.15% for the year, and Brazil and Mexico, where worries about fiscal issues caused their currencies to depreciate very sharply and their stock markets to end deep in the red. Investors are generally hopeful that 2025 will be another good year, with a strong US economy expected to support global growth and continued robust corporate earnings pushing world equity markets higher.

Performance of Selected Markets in 2024 as of 4pm 12/31/24
Source: Bloomberg and IMF Staff Calculations
Equity Returns in Local Currency

US 10yr Treasury	**+69 bps**
10yr Bund	**+34 bps**
10yr JGB	**+49 bps**
10yr China Government Bond	**-89 bps**
JP Morgan EMBIG (emerging markets)	**-20 bps**
EUR	**-6.1% (dollar stronger)**
JPY	**-10.3% (dollar stronger)**
S&P 500	**+23.3%**
Euro Stoxx 600	**+5.98%**
Nikkei	**+19.8%**
Shanghai CSI 300	**+16.2%**
Brazil Bovespa	**-10.4%**
Mexico Bolsa	**-13.7%**
India Sensex	**+8.2%**
MSCI EM	**+5.05%**
Brent Oil	**-1.6%**
Gold	**+27.4%**
Bitcoin	**+214%**

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), 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

1/13/25 7:44 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities			%				%
United States		5,827	-1.5	-0.7	-3.7	21.8	-1
Europe		4,938	-0.8	-1.0	-0.6	10.2	1
Japan		39,190	-1.0	-1.8	-0.7	10.2	-2
China		3,723	-0.3	-1.2	-5.4	13.3	-5
Asia Ex Japan		70	-2.1	-2.3	-6.8	8.8	-3
Emerging Markets		41	-1.7	-1.6	-6.7	4.8	-2
Interest Rates			basis points				
US 10y Yield		4.8	1	14	37	83	20
Germany 10y Yield		2.6	1	16	35	42	24
Japan 10y Yield		1.2	0	7	16	60	10
UK 10y Yield		4.9	1	24	44	106	28
Credit Spreads			basis points				
US Investment Grade		120	-1	-1	2	-12	0
US High Yield		312	-2	1	3	-77	-17
Exchange Rates			%				
USD/Majors		110.1	0.4	1.7	2.9	7.5	1
EUR/USD		1.02	-0.5	-1.9	-2.9	-6.9	-2
USD/JPY		157.2	-0.3	-0.3	2.3	7.9	0
EM/USD		42.7	-0.3	-0.6	-2.2	-10.7	0
Commodities			%				
Brent Crude Oil ($/barrel)		81.1	1.7	6.3	9.5	8.2	9
Industrials Metals (index)		143.9	0.2	2.8	-0.8	5.8	3
Agriculture (index)		58.0	0.7	2.6	2.2	-3.9	2
Implied Volatility			%				
VIX Index (%, change in pp)		21.4	1.9	5.3	7.6	8.7	4.0
Global FX Volatility		9.2	0.1	0.2	0.6	1.6	0.0
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		88	6	10	6	-18	2
Italy		123	5	10	9	-32	7
France		85	2	4	7	36	2
Spain		70	3	4	3	-21	1

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

Emerging Market Financial Indicators

Last updated: 1/13/2025 7:47 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		7.33	0.0	-0.1	-0.8	-2.2	-0.4		1.7	0	6	-15	-89	-1
Indonesia		16283	-0.6	-0.5	-1.7	-4.5	-0.9		7.1	-1	11	15	41	10
India		87	-0.7	-0.9	-2.1	-4.3	-1.1		7.4	16	3	33	22	5
Philippines		59	-0.6	-0.7	-0.4	-5.0	-1.2		#N/A N/A	######	######	#VALUE!	#VALUE!	######
Thailand		35	-0.3	-0.5	-1.8	0.5	-1.2		2.4	1	4	6	-37	5
Malaysia		4.51	-0.3	0.0	-1.3	3.6	-0.8		3.8	2	1	2	2	2
Argentina		1037	0.0	-0.4	-2.0	-21.4	-0.6		25.3	0	-109	-513	-5535	-383
Brazil		6.09	0.3	0.5	-0.5	-20.1	1.4		15.5	18	4	102	528	-44
Chile		1015	-0.3	-0.3	-2.8	-10.2	-1.8		5.8	5	19	52	37	15
Colombia		4346	-0.3	0.0	0.6	-9.5	1.4		11.5	0	-20	52	181	-30
Mexico		20.78	-0.3	-2.2	-3.1	-18.7	0.2		10.2	6	-7	28	100	-10
Peru		3.8	-0.2	-0.3	-1.6	-2.0	-0.4		6.7	0	-1	13	19	8
Uruguay		44	-0.3	0.3	-0.2	-10.3	-0.4		9.7	1	-1	11	23	2
Hungary		405	-0.5	-1.2	-4.0	-14.7	-2.0		6.7	6	11	54	81	24
Poland		4.19	-0.7	-2.3	-3.1	-4.8	-1.4		5.7	3	6	31	76	9
Romania		4.9	-0.4	-1.8	-2.9	-6.8	-1.5		7.6	16	38	67	142	34
Russia		102.8	-0.9	4.6	1.7	-14.5	10.4							
South Africa		19.1	-0.1	-2.9	-6.6	-2.4	-1.5		10.7	14	32	39	-52	27
Türkiye		35.50	-0.2	-0.6	-1.5	-15.3	-0.4		28.7	-14	-55	-206	193	-101
US (DXY; 5y UST)		110	0.4	1.7	2.9	7.5	1.4		4.59	2	16	34	76	21

	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		3,723	-0.3	-1.2	-5.4	13.3	-5.4		91	-5	-8	-70	-5
Indonesia		7,017	-1.0	-0.9	-4.2	-3.1	-0.9		89	-5	-6	-22	-2
India		76,330	-1.4	-2.1	-7.1	5.2	-2.3		86	2	1	-39	0
Philippines		6,343	-2.4	-4.3	-4.1	-4.5	-2.8		79	-4	-5	-13	0
Thailand		1,354	-1.0	-1.3	-5.4	-4.2	-3.3						
Malaysia		1,586	-1.0	-2.5	-1.4	6.6	-3.5		73	3	1	-21	3
Argentina		2,805,140	-0.9	2.8	18.3	171.5	10.7		579	-7	-161	-1411	-58
Brazil		118,856	-0.8	0.3	-4.6	-9.3	-1.2		229	-4	8	15	-18
Chile		6,814	0.2	0.5	0.7	14.2	1.6		117	4	2	-15	4
Colombia		1,405	-0.2	0.6	1.8	8.8	1.8		323	2	3	20	-3
Mexico		49,597	-0.4	1.3	-3.9	-10.8	0.2		307	-1	3	-29	-5
Peru		29,223	-0.9	-0.1	-1.8	12.1	0.9		143	4	8	-13	2
Hungary		82,424	0.8	3.1	2.8	29.5	3.9		151	-6	3	-14	-4
Poland		80,882	-1.6	-0.7	-0.9	6.3	1.6		109	-4	1	6	-3
Romania		16,964	-0.5	1.5	-2.7	7.5	1.5		237	1	25	23	2
South Africa		82,043	-1.7	-3.2	-5.8	10.5	-2.4		284	-3	5	-49	-9
Türkiye		9,751	-1.6	-3.3	-3.7	22.1	-0.8		256	-2	-1	-84	-3
EM total		41	-1.3	-1.6	-6.7	4.8	-1.7		358	1	-2	-6	-7

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

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