GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 11, 2024

LEAD EDITOR: PATRICK SCHNEIDER

- **Markets are pricing in fewer rate cuts, with a higher chance of no cut in December** (link)
- **Analysts remains cautious despite the recent rally in bank stocks** (link)
- **EM hard currency bond funds saw large weekly outflows** (link)
- **German government bonds rally despite domestic political uncertainty** (link)
- **Hedge funds maintained a bearish stance on the yen** (link)

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Markets were mixed on Monday, with investors looking for more clarity on policy.

Risk sentiment remained positive, but investors are looking for more policy and personnel announcements after markets retraced much of the post election move last week. US bond markets are closed today, but Treasury yields are up only slightly on net since before the election despite a large sell off the following day. Media reports suggested President-elect Trump will narrow down his list of options for Treasury Secretary by the end of the week. US stock futures were trading higher this morning, while European stocks rallied after some analysts expressed optimism that a new German government would be more open to fiscal spending. Chinese stocks were mixed on Monday following Friday's stimulus announcements, with onshore indices ending the day higher while Hong Kong indices fell over 1%. Bitcoin rose to a new record high above 82k. The dollar index was up close to 0.5% this morning, with gains against most advanced and emerging market currencies. Commodity prices mostly declined to start the week, with Brent crude trading near $72 per barrel.

Key Global Financial Indicators

Last updated: 11/11/24 7:50 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5996	0.4	5	3	36	26
Eurostoxx 50		4863	1.3	0	-3	16	8
Nikkei 225		39533	0.1	4	0	21	18
MSCI EM		45	-2.5	0	-4	16	11
Yields and Spreads				bps			
US 10y Yield		4.30	0.0	2	20	-35	43
Germany 10y Yield		2.35	-1.8	-5	8	-37	33
EMBIG Sovereign Spread		325	-4	-8	-28	-107	-58
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		44.4	-0.6	-1	-3	-6	-8
Dollar index, (+) = $ appreciation		105.5	0.5	2	3	0	4
Brent Crude Oil ($/barrel)		72.7	-1.6	-3	-8	-11	-6
VIX Index (%, change in pp)		15.3	0.4	-7	-5	1	3

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

In the week ahead, several major economies (UK, Japan, Poland, Colombia) will report GDP growth. In the US, the CPI release for October will be closely watched after the September print was higher than expected. Consensus expects 0.3% m/m for core and 0.2% m/m for headline. In China, activity data will be published as investors continue to gauge the state of the economy and any early impact from recent stimulus packages. Elsewhere, India, Nigeria and Argentina will report inflation while the central bank of Mexico will have a policy meeting amid heightened peso volatility, with analysts expecting a 25 bp cut.

Mature Markets

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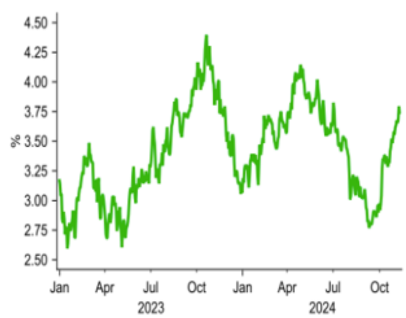
United States

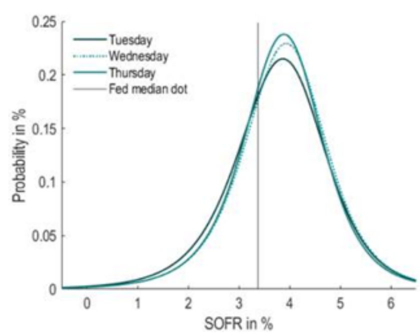
Markets are pricing in a shallower easing cycle, with an increasing probability of no rate cut in December. Following the election and last week's FOMC meeting, option-implied densities now point to an increasing probability of no change in interest rates in December, followed by a shallower easing cycle in 2025. Futures markets are pricing in only 16 bps of easing in next month's meeting. BNP analysts noted that the new political backdrop might give the Fed additional room to leave rates unchanged, assuming the economic data remains strong. Goldman Sach analysts also updated their expectations for a shallower and more gradual easing cycle, and now expect a terminal rate of 3.25–3.5%. They expect 25 bp cuts at the December, January, and March meetings, followed by two final cuts in June and September (compared to May and June previously). As shown in the October 2024 Global Financial Stability Report, higher interest rates for longer could pose meaningful refinancing risks for corporates and negatively impact banks with large exposure to commercial real estate.

Market pricing of the terminal rate has risen...



Source: TD Note: Terminal rate indicates the point at which market pricing anticipates Fed to stop cutting rates.

...alongside the probability density of the Fed's expected rate path through 2025 since the election

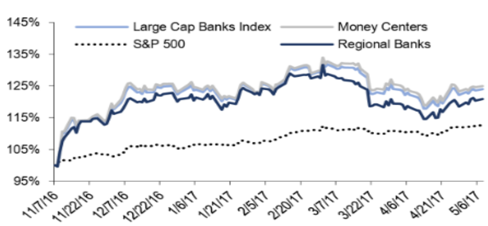


Source: Bloomberg, IMF staff analysis

Analysts remain cautious about the recent rally in bank stocks. Bank stocks have outperformed since the US election (+7.3% last week) on expectations for deregulation, increased investment banking activity, and strong near-term growth. However, JP Morgan analysts warned that medium-term uncertainty remains elevated. They noted that during the previous Trump Administration, banks outperformed in 2016, but lagged considerably in 2017. Potential headwinds include the impact on GDP growth and corporate sector health from higher deficits, inflation, and financing costs, as well as a reduction in global trade.

Figure 1: Bank Stocks Outperformed Sharply Following Trump's 2016 Election Victory ...

Rebased indices to day before 2016 election



Source: Bloomberg Finance L.P. and J.P. Morgan calculations. Aggregate of our coverage universe and J.P. Morgan

Table 1: ... But Lagged in Early 2017

Change in indices

	11/7/2016 - 12/30/2016	12/30/2016 - 3/31/2017
Money Centers	24%	2%
Regionals	21%	-1%
Large Banks	23%	1%
S&P 500	5%	6%

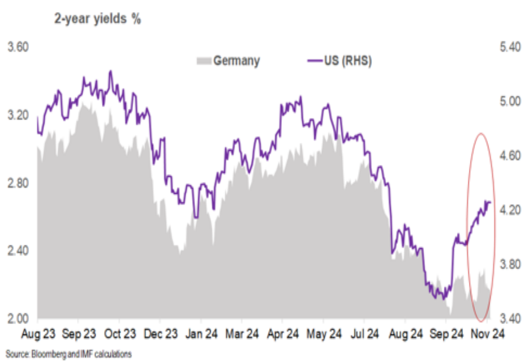
Source: Bloomberg Finance L.P. and J.P. Morgan calculations. Aggregate of our coverage universe and J.P. Morgan.

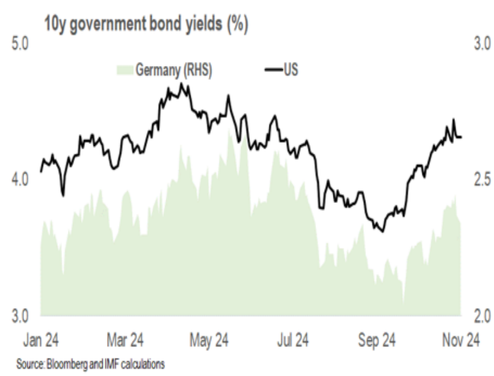
Europe

European equities were sharply higher this morning. The Stoxx 600 index was higher (+1.2%) in early trading with all sectors trading in the green and other regional bourses also in positive territory. Some analysts felt that a new German government could be more open to fiscal spending to support a struggling economy. The euro was weaker (-0.4%) against the dollar to trade at 1.0675. Separately, Fitch ratings raised Spain's outlook to positive from stable on Friday. Moody's also upgraded Croatia to A3 (stable outlook) from Baa2 (positive outlook).

Germany

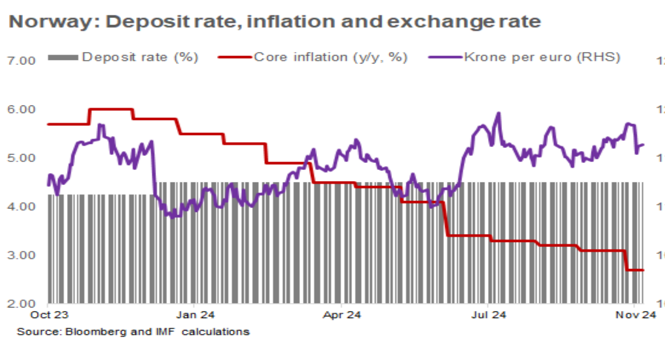
German government bonds have rallied despite domestic political uncertainty. In early morning trading, 10y bund yields extended their rally from last week and fell 3 bps to 2.35%, while 2y yields were around 2 bps lower. Since last Thursday, 10y and 2y bund yields are 11 bps and 5 bps lower, reflecting market expectations for more ECB rate cuts following the US election. Swap markets are pricing in about 138 bps of easing through October 2025, up from 115 bps prior to the election. Analysts at Commerzbank felt that the quieter calendar this week could allow for some consolidation of recent moves, noting that 10y German swap spreads appear to have stabilized at around 0 bp. Political focus remains on the likely timing of new elections, with media reports stating that Chancellor Scholz is open to holding a confidence vote before Christmas (previously he had suggested mid-January), with elections to follow in March.





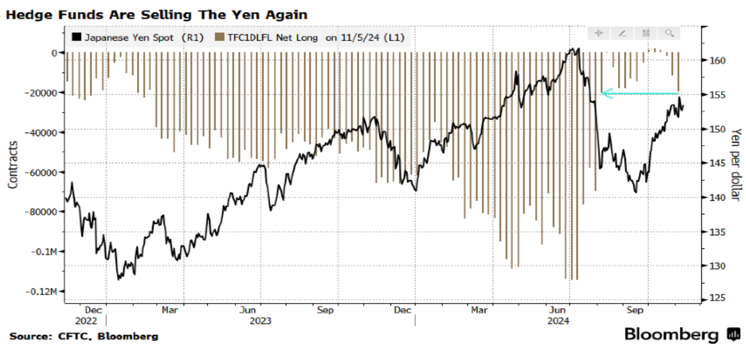
Norway

The Norwegian krone was little changed after core inflation slowed for the consecutive month. Core inflation declined to 2.7% y/y in October, in line with expectations, but below the Norges Bank's projection. Headline inflation fell to 2.6% y/y (vs 2.4% expected). JP Morgan analysts noted that today's inflation data, alongside a more stable currency since the September central bank meeting should make the MPC "more comfortable about guiding for a cut in March." That said, the analysts noted that there remains some uncertainty following the US election with downside risks to their expectation of a terminal rate of 3.5% by end-2025 amid the threat of trade tensions. Markets are pricing in around a 22% chance of a rate cut in January, with more than a full 25 bps priced in for the March meeting. The Norwegian krone was broadly steady following the release trading at 11.81/€, although the currency is around 4.9% weaker against the euro year to date.



Japan

Hedge funds maintained a bearish stance on the yen, with the largest short positioning since August, according to the latest Commodity Futures Trading Commission (CFTC) data. Hedge funds had briefly turned net long in September, but short positions have gradually increased in recent weeks, though far from the levels seen earlier in the ear. Amid the yen's renewed weakness, some traders reportedly are anticipating at least some resurgence of carry trades despite expectations of an upcoming rate hike by the Bank of Japan (BoJ). However, discussions among BoJ members at the October meeting gave no clear signal on timing, with members signaling caution, and increasing doubt among analysts that the BoJ will hike in December. **The yen depreciated 0.6% to 153.7 on Monday**. Japanese stocks were little changed Monday, while the current account surplus fell 41.9% y/y in September.



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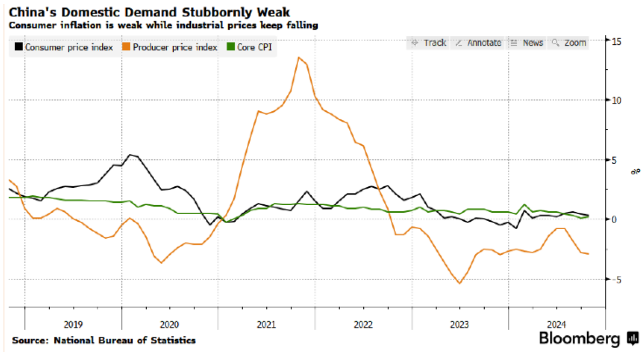
Market Summary

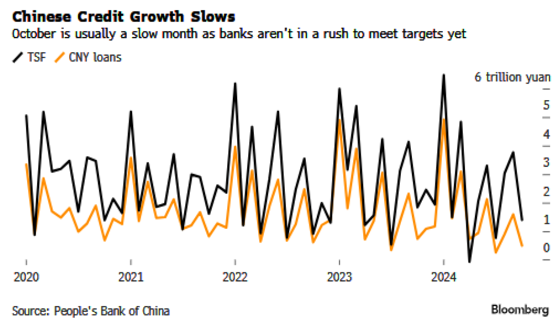
EMEA equities were mixed while currencies were mostly weaker against the dollar. The rand underperformed, down over 1% this morning. On the data front, Egypt's urban CPI inflation accelerated slightly for the third consecutive month in October to 26.5% y/y. **Asian currencies depreciated,** led by the Thai baht (-1.0%), Malaysian ringgit (-0.7%), and Philippine peso (-0.6%). **Regional stock markets were mostly lower,** partially reflecting disappointment over China's recent stimulus measures. While the onshore CSI300 index ended the day higher, Hong Kong's Hang Seng index fell 1.5% and an index of Chinese companies listed in Hong Kong fell 1.4%. Korean stocks also declined 1.2%. **In Latin America, regional equity markets declined on Friday**, with Colombia (-1.7%), Brazil (-1.4%), Mexico (-0.9%), and Chile (-0.6%) all posting losses. Most currencies also declined, led by the Chilean peso (-2.2%) after copper prices fell. The Mexican peso also depreciated 1.9% following media reports that officials with hawkish trade views would gain prominent posts in the incoming Trump Administration. The Colombian peso (-1.1%) slid after weaker than expected inflation data (-0.13% m/m vs 0.16% expected).

China

Most market analysts were underwhelmed by China's latest fiscal stimulus package, as it fell short of expectations for more substantial measures to boost consumption and support the economy. While the RMB10 tn debt resolution plan announced on Friday should help ease pressure on local governments, analysts noted it lacked provisions to directly stimulate demand. Notably, property and consumer stocks underperformed. However, several analysts believe the conservative policy stance is meant to preserve policy space to respond more forcibly to a potential trade war with the incoming Trump Administration.

Recent economic data points to ongoing deflationary pressures and weak demand. CPI inflation declined to 0.3% y/y (from 0.4% previously) in October and PPI fell to -2.9% y/y (from -2.8% previously). The latest credit data also disappointed, with aggregate financing rising by RMB1.4 tn ($195 bn), compared to RMB1.5 tn expected. New loans similarly fell short of expectations at RMB500 bn, compared to RMB700 bn expected. The yuan fell 0.2%, partially supported by state banks' onshore dollar sales. Chinese stocks (CSI300) fell as much as 1.4% intraday before rebounding to close with a 0.7% gain.





Emerging Market Fund Flows

EM bond funds saw large weekly outflows of $3.2 bn in the week ending November 6, the largest combined (local and hard currency) outflows in over two years. Hard currency funds saw outflows accelerate to -$2.9 bn (from -$1.5 bn previously), while local currency outflows eased to -$292 mn (from -$734 mn previously). Broad EM hard currency funds had outflows of $2.8 bn. Asia ex-Japan hard currency outflows accelerated to -$171 mn (from -$18 mn). EM equity fund outflows moderated to -$1.4 bn (from -$3.1 bn previously), led by Asia ex-Japan (-$1.9 bn). YTD, EM bond and equity fund flows stand at -$19.1 bn and +$3.7 bn, respectively.

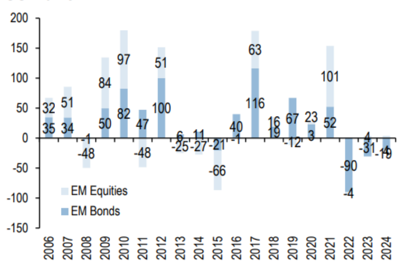
Figure 1: Weekly cross-asset flows

USD billion

	Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows	**EM Bonds and Equities**		-4.6	-15.3
	EM Bonds		-3.2	-19.1
	Hard Ccy		-2.9	-11.6
	Local Ccy^		-0.3	-7.5
	o.w. EM ex-China		-0.3	-8.3
	o.w. China		0.0	-1.6
	EM Equities		-1.4	3.7
	US HG		7.0	326.8
	US HY		0.4	27.7
	Global Equities		29.4	214.4
	EM Bond and Equity ETFs		-1.3	37.5
	EM Bond ETFs		-1.1	-2.7
	EM Equity ETFs		-0.2	40.2
	Non-resident EM flows*		-3.9	-9.8

Figure 2: EM bond and equity fund flows

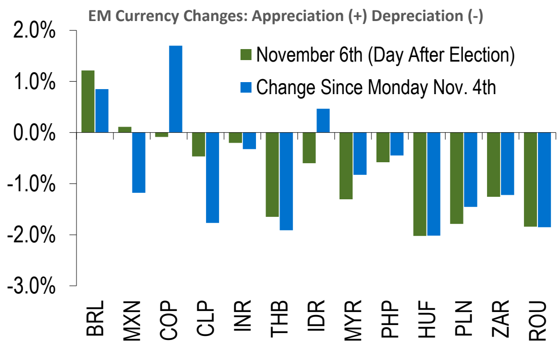
USD billion



*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.*

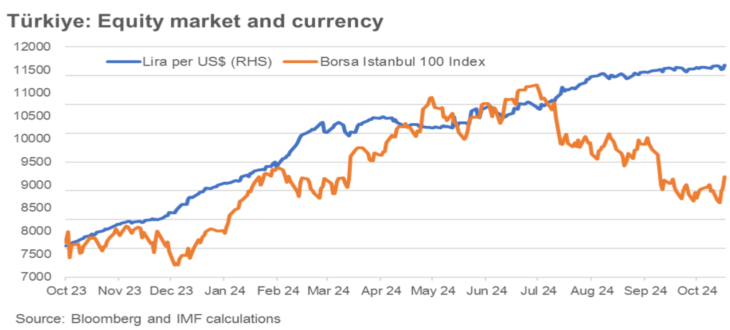
EM Currencies

Most EM currencies have weakened over the last week, though some recovered following the initial election related sell off. The MSCI EM Currency Index posted its worst week (-0.26%) in over a month following the US election and Chinese stimulus announcements. Currencies in Asia and CEEMEA generally depreciated on Monday as well. Bank of America analysts opined that EM currencies are likely to come under further pressure in the coming months amid a high likelihood of trade shocks. The Chilean peso, Bulgarian lev, Thai baht, Romanian Leu, and Hungarian forint have underperformed over the last week. The Mexican peso remained extremely volatile, declining over 3% intraday following the election before recovering, and then selling off sharply again on Friday.



Türkiye

Türkiye's central bank raised its inflation forecasts, but analysts see a gradual easing cycle approaching. The Central Bank of the Republic of Türkiye (CBT) raised its midpoint inflation forecasts for end-2024 to 44% (from 38%), and for end-2025 to 21% (from 14%). The CBT attributed the upward revisions to recent upside surprises in inflation feeding through to a higher underlying inflation trend. However, Morgan Stanley (MS) analysts highlighted that while the CBT governor reiterated that a tight monetary policy rate would be maintained, he also added that the CBT would consider all indicators for underlying inflation and "maintain the necessary tightness in the policy rate and macroprudential instruments to ensure that inflation remains within the forecast range." MS analysts argued that the tone of the meeting suggests the CBT will gradually begin easing rates, with a possible 250 bp cut in January 2025. Alternatively, if the CBT cuts rates in December, it would start with a smaller 150–200 bp move. For the November meeting, most market contacts expect the CBT to leave its policy rate unchanged at 50%. **Equities rallied on Friday (+2.7%) and were trading higher this morning (+0.4%).**



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 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

11/11/24 7:46 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,996	0.4	4.7	3.1	35.8	26
Europe		4,859	1.2	0.2	-2.9	15.8	7
Japan		39,533	0.1	3.9	-0.2	21.4	18
China		4,131	0.7	4.7	6.3	15.2	20
Asia Ex Japan		77	-2.7	0.3	-3.8	19.8	15
Emerging Markets		45	-2.5	0.4	-3.7	16.4	11
Interest Rates					basis points		
US 10y Yield		4.3	0	2	20	-35	43
Germany 10y Yield		2.4	-2	-4	9	-37	33
Japan 10y Yield		1.0	-1	5	5	15	39
UK 10y Yield		4.5	2	-1	24	12	91
Credit Spreads					basis points		
US Investment Grade		114	-2	-13	-10	-45	-20
US High Yield		303	-12	-25	-41	-136	-83
Exchange Rates					%		
USD/Majors		105.5	0.5	1.6	2.5	-0.3	4
EUR/USD		1.1	-0.5	-2.0	-2.5	-0.4	-3
USD/JPY		153.8	0.7	1.1	3.1	1.4	9
EM/USD		44.4	-0.6	-1.0	-2.8	-6.1	-8
Commodities					%		
Brent Crude Oil ($/barrel)		72.7	-1.6	-3.2	-7.5	-6.7	-3
Industrials Metals (index)		146.6	-0.7	-1.7	-4.9	7.0	3
Agriculture (index)		56.9	-0.2	2.2	0.4	-13.0	-9
Implied Volatility					%		
VIX Index (%, change in pp)		15.3	0.4	-6.7	-5.1	1.1	2.9
Global FX Volatility		8.2	0.1	-1.0	-0.3	0.6	0.1
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		88	-2	-2	-6	-38	-15
Italy		127	-2	0	-2	-59	-40
Portugal		50	0	2	-1	-24	-13
Spain		73	-1	2	-2	-32	-24

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

Emerging Market Financial Indicators

Last updated: 11/11/2024 7:48 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		7.20	-0.2	-1.4	-1.8	1.2	-1.4		1.9	0	-7	-5	-74	-61
Indonesia		15680	-0.1	0.5	-0.6	0.1	-1.8		6.8	1	-3	7	-10	27
India		84	0.0	-0.3	-0.4	-1.3	-1.4		7.2	1	-4	11	-35	-1
Philippines		59	-0.6	-0.4	-2.4	-4.3	-5.5		5.0	12	2	22	-95	-67
Thailand		34	-1.0	-1.9	-3.0	4.8	-0.7		2.4	-2	-9	-13	-86	-35
Malaysia		4.41	-0.6	-0.8	-2.8	6.8	4.2		3.9	1	-3	11	0	16
Argentina		994	0.0	-0.4	-2.0	-64.8	-18.6		31.1	-173	-88	-931	-7851	-5526
Brazil		5.80	-1.2	-0.3	-3.3	-15.4	-16.3		12.5	3	-44	45	116	215
Chile		980	-0.9	-2.6	-5.7	-5.8	-10.3		5.2	0	9	29	-21	33
Colombia		4362	-1.2	1.7	-3.1	-6.4	-11.6		8.3	6	-43	52	9	68
Mexico		20.46	-1.4	-1.7	-5.8	-13.9	-17.0		9.4	9	-28	47	30	99
Peru		3.8	-0.4	0.2	-0.6	0.8	-1.6		6.8	######	1	29	-42	8
Uruguay		42	-0.9	-1.4	-1.4	-5.4	-7.9		9.4	0	7	-7	-29	-9
Hungary		384	-1.0	-2.2	-4.3	-8.1	-9.5		6.7	5	-7	42	-56	92
Poland		4.07	-0.9	-1.6	-3.7	1.7	-3.3		5.0	0	-7	7	-7	50
Romania		4.7	-0.6	-2.0	-2.6	-0.4	-3.5		6.7	0	2	22	10	55
Russia		98.0	-0.4	0.9	-2.2	-6.5	-8.7							
South Africa		17.8	-1.4	-1.8	-2.4	4.9	2.9		8.8	4	-5	11	-72	-28
Türkiye		34.34	0.1	0.0	-0.2	-16.7	-14.0		30.0	8	-96	48	-173	323
US (DXY; 5y UST)		105	0.5	1.6	2.5	-0.3	4.1		4.19	0	5	29	-49	34

	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		4,131	0.7	4.7	6.3	15.2	20.4		101	-4	-16	-64	-57
Indonesia		7,266	-0.3	-2.8	-3.4	6.7	-0.1		87	5	-5	-45	-9
India		79,496	0.0	0.9	-2.3	21.8	10.0		81	-7	-14	-48	-35
Philippines		6,940	-0.5	-2.7	-5.1	12.6	7.6		74	6	-4	-35	-6
Thailand		1,456	-0.6	-0.4	-0.9	4.8	2.9		0	0	0	0	0
Malaysia		1,609	-0.7	-0.4	-1.5	11.4	10.6		59	-7	-15	-34	-26
Argentina		1,964,487	-2.5	6.3	10.2	197.5	111.3		851	-101	-338	-1615	-1062
Brazil		127,830	-1.4	-0.2	-1.7	6.0	-4.7		204	1	-1	-25	-11
Chile		6,520	-0.6	-1.7	-0.8	16.0	5.2		113	5	0	-38	-12
Colombia		1,335	-1.7	-1.7	0.7	21.1	11.7		317	-15	11	-2	46
Mexico		51,845	-0.9	2.4	-1.1	1.1	-9.7		290	-5	-8	-76	-44
Peru		30,287	-0.1	-0.6	-0.5	38.8	16.7		137	2	0	-31	-7
Hungary		76,984	1.0	4.3	3.7	33.8	27.0		148	1	2	-50	-1
Poland		82,250	0.0	3.4	-1.4	15.0	4.8		111	9	4	-9	14
Romania		17,502	0.7	1.7	-1.3	20.4	13.9		199	3	9	1	-2
South Africa		84,837	-0.3	-1.6	-1.5	18.8	10.3		267	-8	-1	-108	-41
Türkiye		9,245	0.7	6.7	4.2	19.0	23.8		250	-8	-27	-128	-64
EM total		45	0.0	0.4	-3.7	16.4	11.0		365	-13	-22	-35	20

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

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