- **Banxico is expected to cut rates by 25 bps on Thursday despite recent peso volatility** (link)
- **Bitcoin surges to new record highs but futures are showing signs of market froth** (link)
- **Chinese stock ETFs have seen large outflows in recent weeks** (link)
- **Foreign direct investment in China continued to decline in Q3** (link)
- **Some Japanese banks may be regaining their appetite for domestic bonds** (link)

Mature Markets | Emerging Markets | Market Tables

King dollar and bitcoin stand above the rest

The dollar continued to rally against both advanced and emerging market currencies. The dollar index rose 0.3% this morning to extend its gain over the last month to nearly 3%. The euro continued to weaken and has fallen 2.5% against the dollar month to date. Most EM currencies were also lower, with the Thai baht underperforming. The PBC set the daily fixing on the yuan to the weakest level since September 2023. Treasury yields moved higher again after the US holiday on Monday. Meanwhile, bitcoin rose to yet another record high at close to $88,000 as investors expect a more relaxed regulatory environment in the coming years. Most global equities were lower this morning. Chinese stocks slumped and some analysts pointed to the appointment of key officials with strong views on trade and China in the incoming Trump Administration. Elsewhere, Germany will reportedly hold a new election in February. Indian CPI inflation came in above expectations at 6.2%, likely putting a dent in investors hopes for rate cuts in the near term.

Key Global Financial Indicators

Last updated: 11/12/24 7:39 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		6001	0.1	5	3	36	26
Eurostoxx 50		4807	-1.0	-1	-4	15	6
Nikkei 225		39376	-0.4	2	-1	21	18
MSCI EM		44	-0.8	-1	-4	16	10
Yields and Spreads			bps				
US 10y Yield		4.36	5.7	9	26	-29	48
Germany 10y Yield		2.31	-2.1	-12	4	-41	28
EMBIG Sovereign Spread		325	-4	-8	-28	-107	-58
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		44.2	-0.2	-1	-3	-6	-8
Dollar index, (+) = $ appreciation		105.9	0.3	2	3	0	5
Brent Crude Oil ($/barrel)		72.3	0.6	-4	-9	-11	-6
VIX Index (%, change in pp)		15.2	0.3	-5	-5	1	3

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

Mature Markets

United States

Analysts believe the market rotation into small cap stocks could continue through the end of 2024. Bloomberg analysts believe the combination of easier monetary policy and strong earnings could drive the small cap Russell 2000 index to outperform the benchmark S&P500. Small cap stocks have outperformed the S&P500 over the last week, up 9.7% compared to 5.1%. However, historically, small cap stocks have delivered 20% returns during non-recessionary rate cutting cycles, compared to 25% returns for the S&P500. Moreover, recent periods of outperformance for smaller firms in the fourth quarter of 2023 and the second quarter of 2024 have been short lived as stronger earnings growth and AI-driven sentiment have provided tailwinds for the largest tech firms that dominate the S&P500.
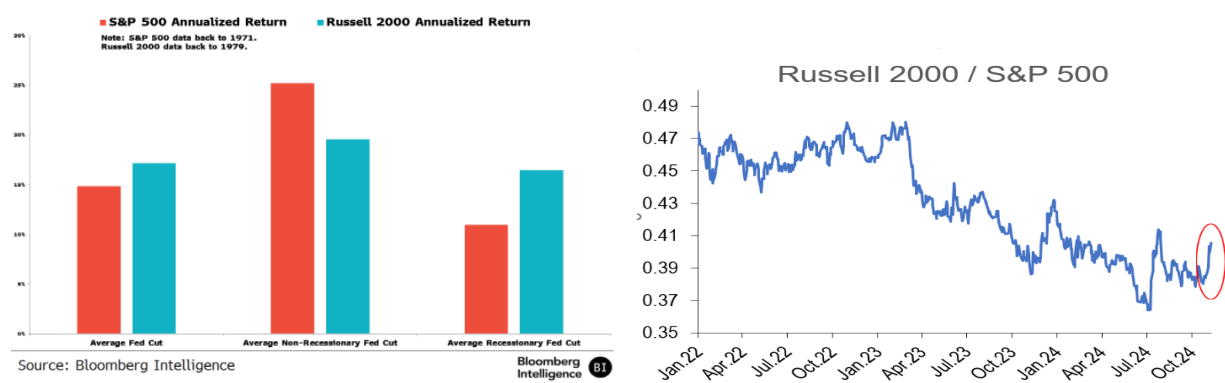

Bitcoin

Bitcoin has surged to new record highs, but futures are showing signs of market froth. Bitcoin topped $88,000 on Monday amid strong risk sentiment and investor excitement about a more relaxed regulatory outlook. Some market participants are speculating about a $100,000 target, which has long been the goal of crypto enthusiasts. However, Bloomberg analysis shows that in previous bull cycles, when trading volumes and open interest levels spike simultaneously (as they are now), it tends to coincide with a ceiling for prices.
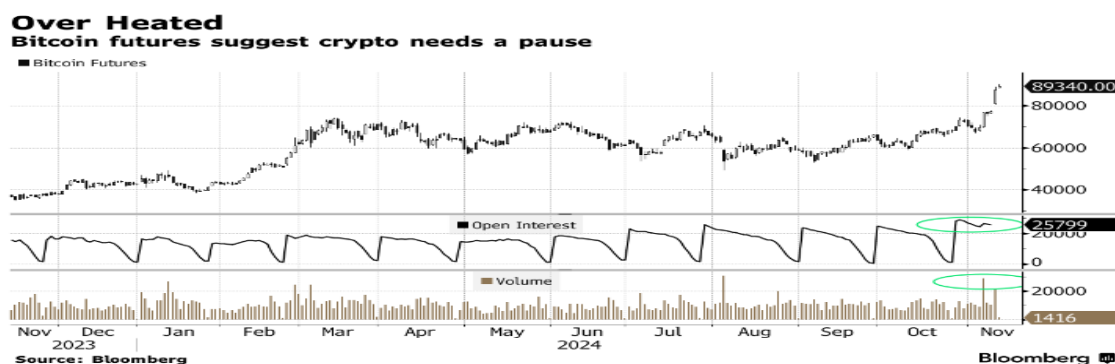
Europe

European equities edged lower this morning, with the Stoxx 600 index down 0.9%, reversing most of yesterday's gains. The decline was led by losses in the materials (-1.4%), real estate (-1.3%), consumer discretionary (-1.3%), and banking sector (-0.6%) sectors. All European bourses were in the red.

European Stocks (Apr 2024= 100)
Source: Bloomberg and IMF calculations
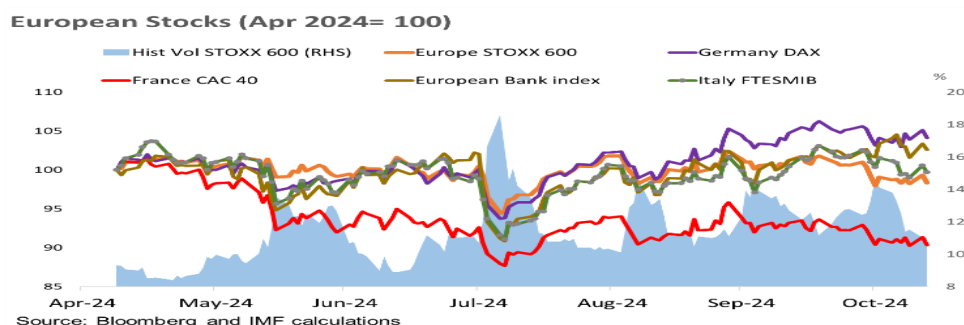
The euro continued weaken against the dollar (-0.3%) to trade at $1.0621€. The ZEW survey economic expectations index for the Eurozone dropped to 12.5 pts in November, from 20.1 pts in October.

German government bond yields edged lower after media reports indicated that an early federal election would take place on February 23. 2y and 10y Bund yields fell 2–3 bps this morning. The spread between the 10y EUR swap rate and the 10y Bund yield has narrowed by 6 bps over the last week to reach negative territory (-2.1 bps), with analysts at Commerzbank and Rabobank expecting the Bund swap spread to further tighten in the medium term. Otherwise, the ZEW survey for Germany showed that investor expectations fell to 7.4 (vs 13.2 expected), down from 13.1 in October.

United Kingdom

The sterling weakened (-0.3%) after the unemployment rate rose more than expected to 4.3% in September (vs 4.1% expected) from 4.0% in August. Three-month weekly earnings growth slowed in September by less than expected to 4.8% y/y (vs 4.7% expected) from 4.9% y/y in August. Analysts at JP Morgan and at Nomura believe today's data won't significantly impact the Bank of England's gradual easing cycle but should support the case for no cuts at the December MPC meeting. ING also expects the Bank of England to keep rates on hold in December, before cutting again in February. Gilt yields edged higher this morning, with the 10y yield up 2 bps to 4.43% and the 2y yield up 3 bps to 4.44%.
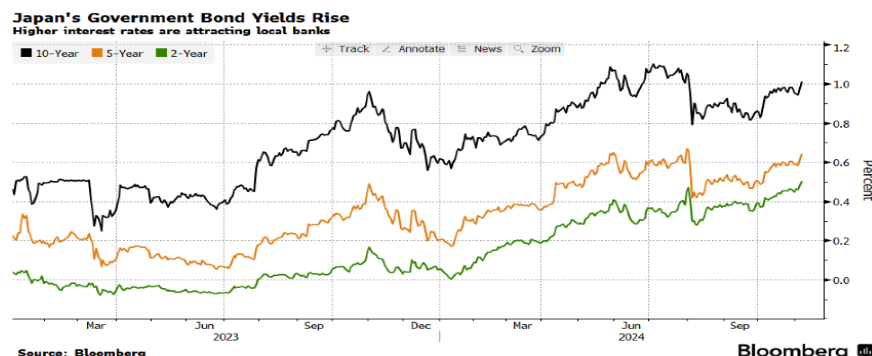

Progress on Wage Disinflation Has Slowed
Source: ONS, Bloomberg Economics
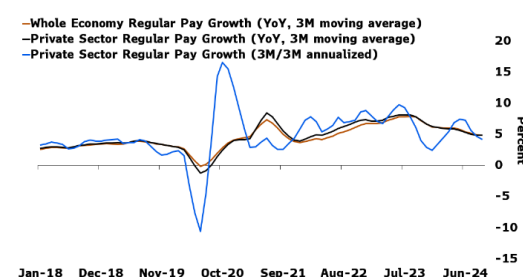
ILO unemployment rate
Source: ONS
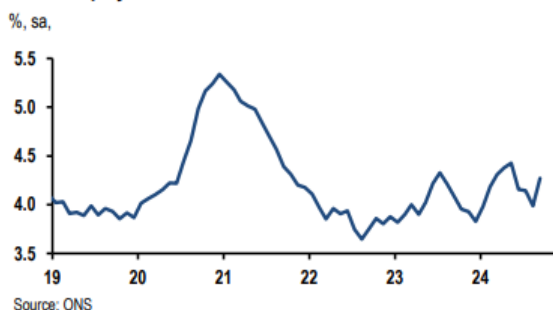
Japan

Domestic banks are regaining their appetitte for Japanese government bonds as yields have edged higher, with the 10y yield surpassing 1% again. Bank of Yokohama, one of Japan's largest regional banks, announced plans to resume purchasing JGBs, targeting a 10y yield of around 1.1%, while also considering shorter-maturity bonds. Japanese banks have prioritized foreign investments in recent years, but rising domestic yields could lead to gradual shifts in asset allocation. While regional lenders remain cautious about potential risks, such as the possibility that the BOJ's policy normalization is derailed by US political and economic developments, they are reportedly more concerned about missing opportunities by delaying purchases, especially after incurring some losses on sales of foreign securities in recent years.

On Tuesday, the Nikkei 225 index declined (-0.4%) following disappointing earnings in the semiconductor sector despite Prime Minister Ishiba's pledge of over ¥10 tn ($65.1 bn) to support the semiconductor and AI industries by fiscal year 2030. The yen declined slightly (-0.1%) against the dollar.

Japan's Government Bond Yields Rise
Higher interest rates are attracting local banks
Source: Bloomberg

Emerging Markets   back to top

Tariff concerns and disappointment over China's stimulus measures have weighed on emerging market (EM) assets in recent days. Broad dollar strength has weighed on EM currencies, with the JP Morgan EM Currency index falling 1.1% over the last week and 2.9% over the last month.
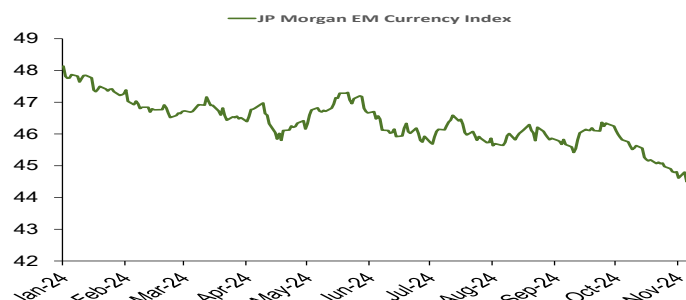
EMEA equities and currencies were mixed on Tuesday. CEE equities traded mostly lower but gained in Hungary (0.4%), while CEE currencies were slightly stronger against the euro. The South African rand was weaker against the dollar (-0.6%), with the stock market also down (-0.8%). **Asian stocks mostly declined,** with onshore Chinese stocks (CSI300) falling 1.1%. Equity markets in Hong Kong (-2.8%), Korea (-1.9%), and the Philippines (-1.9%) also closed lower. Asian currencies continued to depreciate, with the Thai baht falling 1.3% as some investors expressed concerns over the central bank's independence following the appointment of former finance minister Kittiratt Na-Ranong as the new chairman of the Bank of Thailand. **In Latin America, equities were mixed on Monday**, with declines in Mexico (-0.6%) and Colombia (-1.7%) offset by modest gains in Chile and Brazil. **Most regional currencies declined** as media reports suggested that new appointees for the incoming Trump Administration would take a hawkish view on tariffs. The Colombian peso (-1.1%) and Brazilian real (-0.4%) declined while falling copper prices (-1.4%) continued to pressure the Chilean peso (-1%). Although Mexican peso volatility has declined over the last week, it has ticked higher again since Friday and the peso declined 0.8%.

China

Chinese ETFs have seen large outflows as the equity market rally has lost some momentum. Two major stock ETFs focused on China recorded large outflows in the latest weekly data. The iShares China Large-Cap ETF reported $315 mn in outflows last week, while the iShares MSCI China ETF also reported $280 mn in outflows. For all China focused ETFs and mutual funds, EPFR reported close to $15 bn in outflows over the last four weeks after over $60 bn had flowed into these funds following a flurry of stimulus

announcements in late September. Analysts attribute these outflows to waning investor confidence in China's economic outlook, driven by rising geopolitical tensions and concerns about potential tariffs from the incoming US administration under President-elect Donald Trump. Foreign investors in particular have also been disappointed in China's latest stimulus measures.
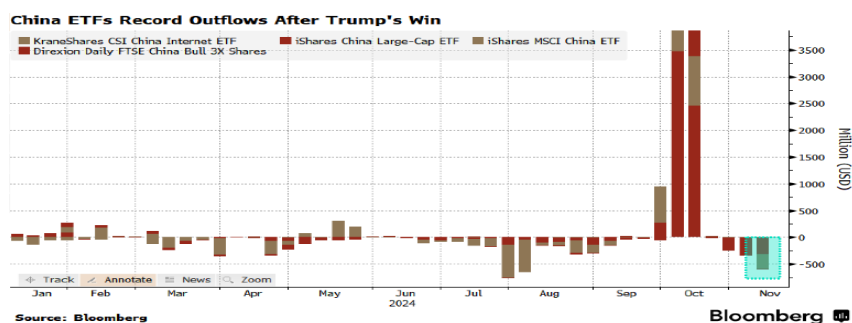

Foreign direct investment continued to decline, with net nonresident outflows of $8.1 bn in the third quarter, according to data from the State Administration of Foreign Exchange. On the current trend, China is likely to see its first annual net outflow since 1990. Companies such as Nissan, Volkswagen, and IBM have scaled back their operations in China, reflecting a broader retreat amid geopolitical tensions and economic uncertainty. Both onshore and offshore Chinese stocks declined today. The yuan depreciated 0.4% as the PBC set the daily fixing at the weakest level since September.
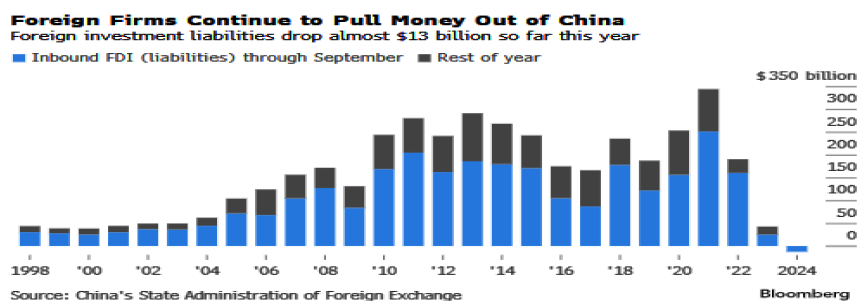
Hungary

October inflation rose to 3.2% y/y (vs 3.5% expected, 3.0% prior), **with the forint gaining marginally against the euro following the release.** Today's data was broadly in line with the National Bank of Hungary's projections. However, Bloomberg analysts noted that the weakness in the currency, which is down 6.6% weaker against the euro year to date, is likely to limit policymakers' ability to cut interest rates further. Weakness in the forint prompted Deputy Governor Virag last month to signal the possibility of a "sustained pause" in rate cuts with the policy rate held at 6.5%, one of the highest in CEE.
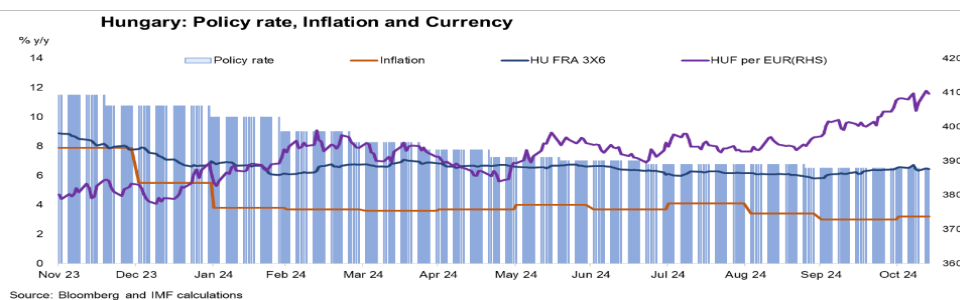
India

Indian CPI inflation rose above expectations to 6.2% (vs 5.9% expected), slightly above the upper limit of the central bank's tolerance band. Although largely driven by vegetable prices, the upside surprise likely cements a hold by the RBI at the upcoming December meeting. Food inflation rose to 9.7 percent. Core inflation continued its gradual upward trend and reached 3.8 percent, driven by gold and silver prices.

Mexico

Banxico is expected to cut rates by 25 bps on Thursday despite recent peso volatility. Implied volatility on the Mexican peso has remained elevated amid investor concerns about potential trade tensions following the US election and domestic political risks. Despite recovering somewhat from the initial election shock, the peso has fallen 5.3% over the last month and 16.6% YTD. Moreover, analysts see the peso remaining susceptible to personnel and policy announcements in the coming months. Nevertheless, with the policy rate at 10.5% and inflation at 4.8% y/y (core at 3.8%) in October, most analysts believe the central bank will deliver a third consecutive rate cut on Thursday. Markets are pricing in close to 125 bps of easing over the next year, though that has declined since October.

Source: Bloomberg

Global Financial Indicators

11/12/24 7:17 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities				%			%
United States		6,001	0.1	5.1	3.2	35.9	26
Europe		4,808	-1.0	-1.3	-3.9	14.5	6
Japan		39,376	-0.4	2.3	-0.6	20.8	18
China		4,086	-1.1	1.0	5.1	14.1	19
Asia Ex Japan		76	-0.8	-0.8	-4.6	18.9	14
Emerging Markets		44	-0.8	-1.0	-4.4	15.5	10
Interest Rates				basis points			
US 10y Yield		4.4	6	9	26	-29	49
Germany 10y Yield		2.3	-2	-12	4	-41	29
Japan 10y Yield		1.0	1	7	6	17	40
UK 10y Yield		4.5	3	-8	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		105.8	0.3	2.3	2.9	0.0	4
EUR/USD		1.1	-0.4	-2.9	-2.7	-0.8	-4
USD/JPY		154.1	0.3	1.6	2.9	1.6	9
EM/USD		44.2	-0.3	-1.4	-3.2	-6.5	-8
Commodities				%			
Brent Crude Oil ($/barrel)		72.1	0.4	-4.5	-8.2	-7.4	-3
Industrials Metals (index)		143.6	-1.4	-4.9	-6.8	4.8	1
Agriculture (index)		56.4	-0.4	0.9	-0.4	-13.7	-10
Implied Volatility				%			
VIX Index (%, change in pp)		15.2	0.2	-5.3	-5.3	1.0	2.8
Global FX Volatility		8.5	0.0	-0.1	0.0	0.9	0.4
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		88	0	0	-6	-38	-16
Italy		126	0	2	-3	-60	-41
Portugal		50	0	4	-1	-24	-13
Spain		74	0	3	-1	-32	-23

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

Emerging Market Financial Indicators

Last updated: 11/12/2024 7:18 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		7.23	-0.2	-1.8	-2.0	0.8	-1.8		1.9	-5	-10	-9	-78	-66
Indonesia		15780	-0.6	-0.3	-1.4	-0.5	-2.4		6.9	16	17	23	6	44
India		84	0.0	-0.3	-0.4	-1.3	-1.4		7.2	3	-2	13	-32	2
Philippines		59	-0.4	-0.9	-2.3	-4.7	-5.9		5.0	4	6	15	-91	-63
Thailand		35	-1.2	-3.4	-4.2	3.5	-1.9		2.4	0	-7	-13	-86	-35
Malaysia		4.44	-0.6	-2.1	-3.2	6.1	3.5		3.8	-1	-5	6	-4	12
Argentina		998	-0.4	-0.6	-2.3	-64.9	-19.0		31.2	12	-111	-948	-7923	-5513
Brazil		5.78	-0.5	-0.6	-3.3	-15.1	-16.0		12.6	3	-18	-1	126	218
Chile		986	-0.6	-3.1	-5.8	-6.4	-10.9		5.3	0	10	31	-16	38
Colombia		4362	-1.2	1.7	-3.1	-6.4	-11.6		8.3	0	-36	32	-12	68
Mexico		20.43	-0.5	-1.6	-5.2	-13.8	-16.9		9.5	-3	-4	41	33	101
Peru		3.8	-0.3	-0.1	-0.6	0.8	-2.0		6.6	######	-10	18	-53	-3
Uruguay		42	-0.3	-1.6	-2.0	-5.4	-8.2		9.4	0	5	-16	-26	-9
Hungary		387	-0.4	-3.3	-5.0	-8.8	-10.3		6.7	-9	-20	26	-58	90
Poland		4.10	-0.1	-2.8	-4.0	1.0	-4.0		5.0	1	-7	4	-5	51
Romania		4.7	-0.4	-2.9	-2.7	-0.9	-3.9		6.7	-1	3	19	4	54
Russia		98.3	-2.2	-0.5	-2.7	-6.8	-8.9							
South Africa		18.1	-0.7	-3.7	-2.8	3.6	1.6		8.9	3	1	7	-66	-22
Türkiye		34.38	-0.1	-0.2	-0.3	-16.8	-14.1		30.1	14	-102	62	-159	337
US (DXY; 5y UST)		106	0.3	2.4	2.9	0.0	4.5		4.26	7	11	36	-42	42

	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		4,086	-1.1	1.0	5.1	14.1	19.1		101	-4	-16	-64	-57
Indonesia		7,322	0.8	-2.3	-2.6	7.1	0.7		87	5	-5	-45	-9
India		78,675	-1.0	-1.0	-3.3	21.2	8.9		81	-7	-14	-48	-35
Philippines		6,810	-1.9	-6.2	-6.8	11.3	5.6		74	6	-4	-35	-6
Thailand		1,445	-0.8	-2.5	-1.7	4.2	2.1		0	0	0	0	0
Malaysia		1,608	-0.1	-0.8	-1.5	11.3	10.6		59	-7	-15	-34	-26
Argentina		1,987,846	1.2	5.7	11.5	201.1	113.8		851	-101	-338	-1615	-1062
Brazil		127,874	0.0	-2.0	-1.6	6.1	-4.7		204	1	-1	-25	-11
Chile		6,539	0.3	0.2	-0.5	16.4	5.5		113	5	0	-38	-12
Colombia		1,335	-1.7	-1.3	0.7	21.1	11.7		317	-15	11	-2	46
Mexico		51,449	-0.8	1.1	-1.8	0.4	-10.3		290	-5	-8	-76	-44
Peru		30,181	-0.4	-0.7	-0.9	38.3	16.3		137	2	0	-31	-7
Hungary		77,403	0.7	4.1	4.2	34.5	27.7		148	1	2	-50	-1
Poland		81,831	-0.5	1.2	-1.9	14.4	4.3		111	9	4	-9	14
Romania		17,622	0.6	2.2	-0.6	21.3	14.6		199	3	9	1	-2
South Africa		84,124	-0.8	-2.9	-2.4	17.8	9.4		267	-8	-1	-108	-41
Türkiye		9,204	-0.8	6.8	3.7	18.4	23.2		250	-8	-27	-128	-64
EM total		44	-1.3	-1.0	-4.4	15.5	10.2		365	-13	-22	-35	20

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

back to top