GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, NOVEMBER 14, 2024
LEAD EDITOR: SANJAY HAZARIKA

- **PPI inflation data in US higher than expected** (link)
- **Yen depreciation back in focus** (link)
- **China dollar bond sale meets very strong demand** (link)
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Global markets remain cautiously optimistic

Markets in Europe posted strong gains and US equity index futures pointed to a positive open as the investor outlook remains upbeat. A postive outlook from chip maker ASML boosted sentiment on hopes that technology shares will continue to do well. Asia was the exception on the equity front, with Japan down on yen depreciation concerns and China's stock market was lower amidst worries about the level of speculation among retail investors, especially in small cap stocks. Asian markets are expected to face particular challenges when the new US administration takes office. However, China's sale of dollar bonds today was a notable success, with the tranches 20 times oversubscribed and yields well below US Treasuries. Meanwhile, markets are hopeful that the Fed and the FOMC will cut rates again in December, with short term interst rate futures markets predicting 25 bps moves from both central banks.

Key Global Financial Indicators

Last updated: 11/14/24 7:48 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5985	0.0	1	2	33	25
Eurostoxx 50		4811	1.5	-1	-5	12	6
Nikkei 225		38536	-0.5	-2	-3	15	15
MSCI EM		43	-0.6	-4	-6	10	7
Yields and Spreads					bps		
US 10y Yield		4.45	-0.6	12	34	0	57
Germany 10y Yield		2.38	-1.3	-7	10	-22	35
EMBIG Sovereign Spread		322	0	-13	-29	-112	-61
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.0	-0.1	-2	-3	-8	-8
Dollar index, (+) = $ appreciation		106.8	0.3	2	3	3	5
Brent Crude Oil ($/barrel)		72.7	0.5	-4	-6	-12	-6
VIX Index (%, change in pp)		14.1	0.1	-1	-6	0	2

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

Mature Markets [back to top]

United States

The latest US PPI inflation data came in a touch higher than market forecasts, further complicating the outlook after yesterday's mixed CPI report. The dollar appreciated against most of the major currencies in the immediate aftermath of the data. Treasuries gave up early morning gains as yields moved higher after the number. However, equity index futures did not display much of a response, maintaining a slight gain.

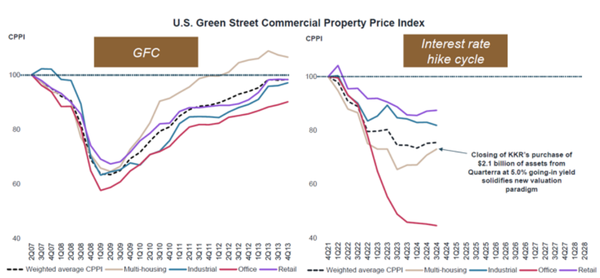
US PPI Inflation Data

Source: Bloomberg

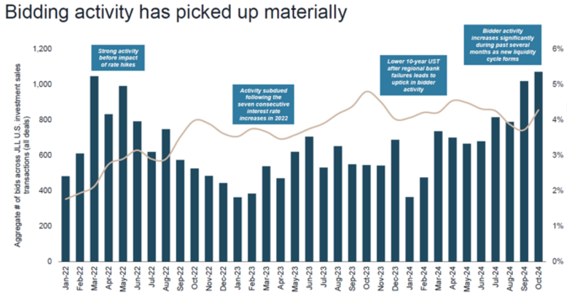
Variable	Consensus Forecast	Actual Data
PPI Inflation month-on-month	**0.2%**	**+0.2%**
Core PPI Inflation mom	**0.2%**	**+0.3%**
PPI Inflation year-on-year	**2.3%**	**+2.4%**
Core PCE Inflation yoy	**3.0%**	**+3.1%**

Analysts at a prominent property consulting firm find broad improvement in US CRE operating conditions. In most segments, resilient demand (including a recovery in leasing volumes) and declining availability (low construction activity, exit of marginal capacity) has tightened the market supply-demand balance and should drive lower national vacancy rates. As a result, capital values are stabilizing (including the worst-hit office segment, see left-hand chart), and investor appetite is resulting in more aggressive bidding volumes and pricing. Construction activity is starting to pick up and financing conditions to relax. The key remaining risk centers on a weak tail of less desirable properties -10% of building space accounts for more than half of vacancies.

Valuations have largely stabilized



Bidding activity has picked up materially

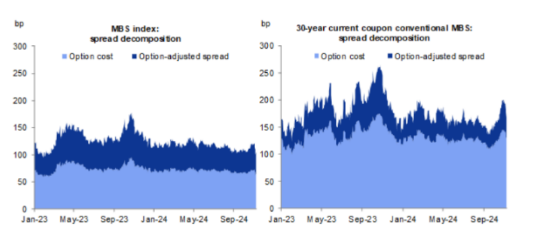


Source: Jones Lang Lasalle

The mortgage backed securities (MBS) market underperformed other fixed income sectors going into election, with most other sectors making strong gains but MBS spreads remaining wide. The main cause was the spike in interest rate volatility, as the MOVE interest rate volatility index jumped from 90 in late September to 135 the day before the election. The concurrent rise in interest rates also let to sharp increase in consumer mortgage rates. MBS are highly vulnerable to surges in volatility because their embedded short prepayment options increase in value when volatility rises, reducing the value of the bonds. With the MOVE volatility falling to 102, the outlook for MBS might improve, but the continued rise in interest rates could cause another rise in volatility and cause

Exhibit 2: The cost of the embedded prepayment options in MBS spiked pre-election

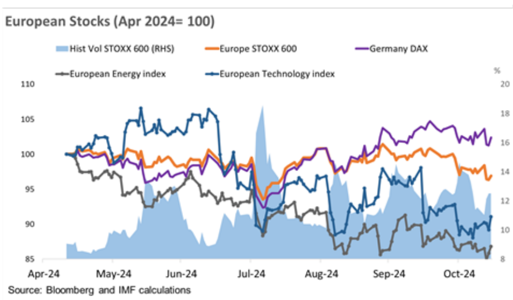
Decomposition of zero volatility spread into option-adjusted spread (OAS) and option cost for the Bloomberg MBS index (left panel) and 30-year conventional current coupon MBS (right panel)



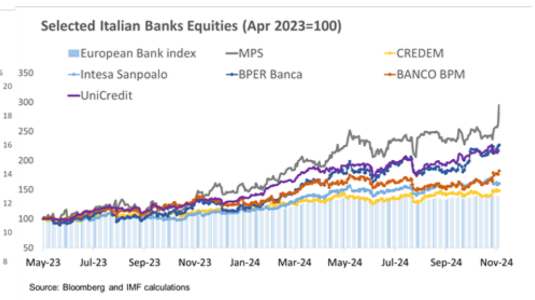
Source: Bloomberg, Goldman Sachs Global Investment Research problems for other parts of the US fixed income market. The benchmark 10-year Treasury yield has shot up from 3.62% in mid-September to 4.45% as of last night's close.

Euro Area

European equities regained some ground today, with the Stoxx 600 index up by 0.6% and all major European bourses in the green (Germany's DAX index outperformed at 1.1%), **after the sharp readjustment experienced on Tuesday** (-1.98%)**.** Today's rise was led by gains in the information technology (2.1%), communication (1.3%) and energy (1.3%) sectors. The banking sector was also up by 0.6%, as Bloomberg reported that the Italian government sold a 15% stake in Monte Paschi (MPS) with Banco BPM buying a 5% equity stake. Analysts at Jefferies and HSBC maintain a constructive view on Italian banks, highlighting resilient profitability as lending margins support net interest income despite decreasing rates, and as analysts note that the recent move of Unicredit on Commerzbank has revived prospects for domestic consolidation in the Italian banking sector.

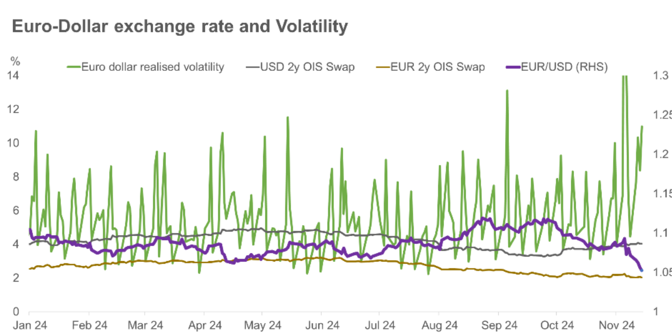


Source: Bloomberg and IMF calculations



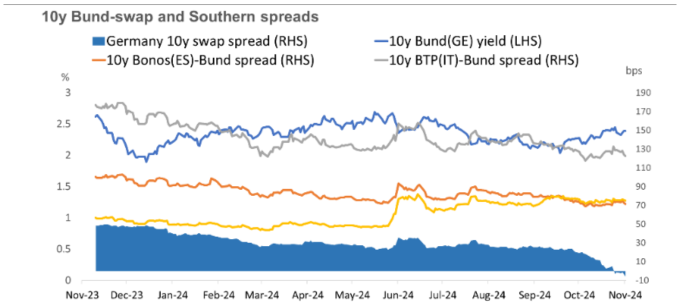
Source: Bloomberg and IMF calculations

The euro continued to decline against the dollar (-0.5%) this morning, trading at $1.0510/€ (-4.8% YTD), **ahead of the US PPI data later today** and after the dollar only temporally paused its rally yesterday when the US CPI printed for October in line with expectations, showing a slight pick-up in headline inflation to 2.6% y/y. ECB's Vice President Luis de Guindos said today that, while progress on inflation in the Eurozone is encouraging for policymakers, economic recovery is not happening at the pace expected by the ECB as "there has been a recovery in family incomes that has not been transferred to consumption". Today's preliminary data showed **that GDP grew in the Eurozone in Q3 in line with expectations and at the same pace as in Q2 (0.9%y/y, 0.4%mm), while industrial production disappointed, declining in September by -2.8%y/y (vs. est. -2%), from a modest 0.1%y/y growth in August**.



Source: Bloomberg and IMF calculations

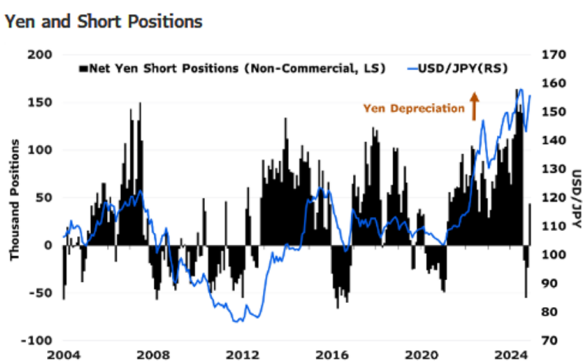
The German Bund yield curve bull-steepened this morning, as two-year yields declined by 4 bps to 2.11% while 10y yields moved down by 2bps to 2.36%. The 10-year Bund-swap spread narrowed further to -6 bps; analysts at Goldman Sachs view the repricing of the spread as overshooting fundamentals amid increased political uncertainty in the country, along with difficulty absorbing bund supply as the ECB proceeds with quantitative tightening. Italian bonds outperformed this morning, with the 10y Bund-BTP yield spread narrowing to 122bps and analysts at Unicredit pointing to negative net BTP supply towards the end of the year.



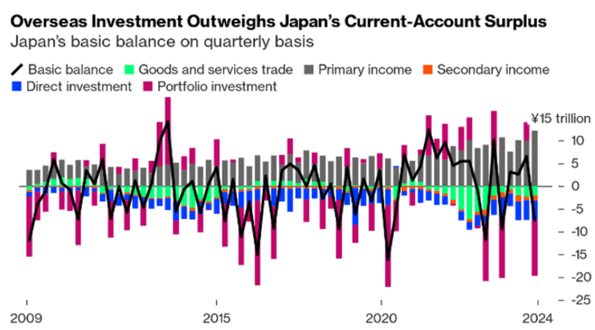
Source: Bloomberg and IMF calculations

Japan

The yen has accelerated its depreciation against the dollar, breaching 156, down from approximately 151.5 before the U.S. election results, and approaching the lowest level in decades of more than 161 back in July. Market positioning indicates stronger downward pressure, with non-commercial short positions turning positive again. Life insurers project the dollar-yen exchange rate to remain between 140 and 160 for the fiscal year, potentially exceeding 160 as the market is underpricing possible rate hikes. Despite Japan posting a current-account surplus in Q3, **larger outflows from direct and portfolio investments have deepened depreciation pressure on the yen**. FX traders expect intervention from Japanese authorities if the yen near this year's lows, though the authorities have maintained relative silence on verbal support for the currency this time. The overnight index swaps market implied a 50% chance of the BOJ lifting rates from 0.25% at its December policy meeting, with the probability rising to 83% by January, and 98% by March. Today, stocks declined (Nikkei: -0.5%), and the yen depreciated (-0.4%).



Source: CFTC, Bloomberg



Sources: Bloomberg, Bank of Japan, Ministry of Finance

Emerging Markets

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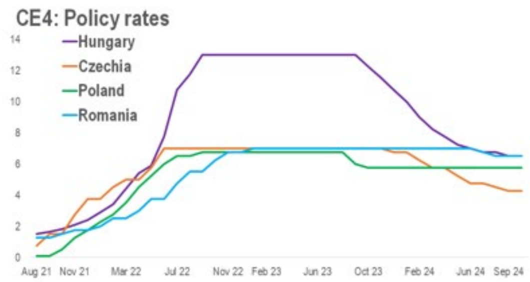
EMEA equities and currencies were mostly trading mixed. Equities in Poland continued to underperform on today's weaker-than-expected Q3 GDP data and a deterioration in corporate earnings outlook from Polish retailers. Meanwhile, equities in Türkiye were outperforming, reversing losses from earlier in the week. **Amid ongoing uncertainty over US President-elect Donald Trump's planned tariffs, Asian stocks declined for the fifth consecutive session, driven by losses in Philippines (-2.3%), Hong Kong SAR (-2.0%), and China (-1.7%).** Asian currencies also slightly weakened (EM. Asia: -0.3%). **Latin American markets were mixed as equities gained in Chile (+0.8%) and Brazil but declined in Colombia (-0.6%) and Mexico (-0.7%).** The Mexican peso saw slights gains despite Moody's analysts forecasting that they don't expect it to trade below 20 MXN/USD in 2025(it is currently trading at 20.65. Additionally, S&P expressed a cautious outlook on Mexico's fiscal management, inflation, and the financial stability of the state-owned petrol company, Pemex.

Central and Eastern Europe (CEE)

Preliminary Q3 GDP data in Central & Eastern Europe was mixed. Q3 data for Romania showed GDP growth printing at 1.1% y/y (1.6% expected, 0.9% prior), below consensus expectations. Preliminary Q3 GDP data for Czechia also disappointed expectations, printing at 1.3% y/y (1.4% expected, 0.6% prior), Meanwhile, data for Hungary showed that growth contracted by 0.8% y/y in Q3, significantly below expectations of a positive reading (+0.7% expected, 1.5% prior). Preliminary Q3 GDP data for Poland released this morning registered at 2.7% y/y (2.9% expected, 3.2% prior). Analysts at Bloomberg describe the outlook for central and eastern European economies as "gloomy," pointing to the fact that domestic consumption has yet to fully offset weakness in Germany, the region's main trading partner. In addition, still elevated inflation rates have led policymakers to pause the easing cycle in the region, with rates in Hungary and Romania the highest in CEE at 6.5%. Comments this morning from Polish MPC member Kotecki suggested that a discussion on easing could begin March if there is further progress on disinflation. **CEE currencies were broadly rangebound against the euro this morning.**

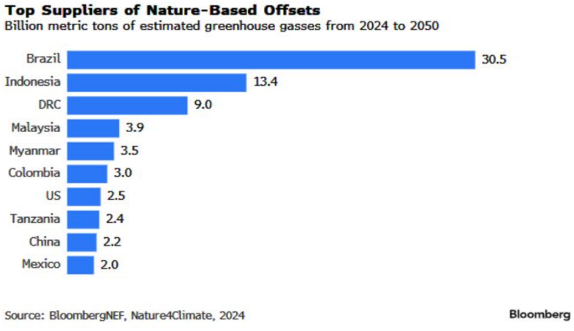
Source: Bloomberg and IMF calculations

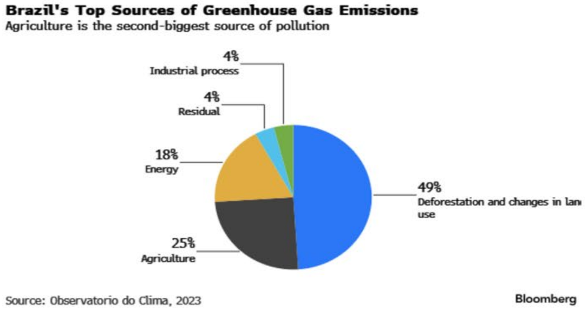


Source: Bloomberg and IMF calculations

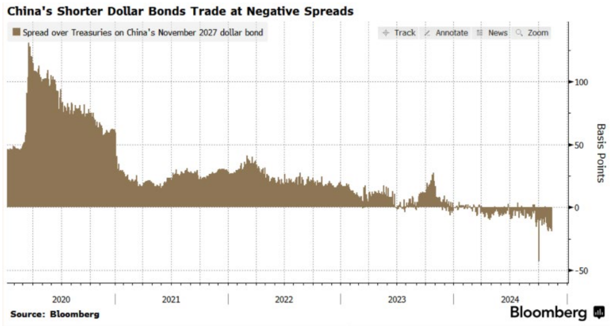
Brazil

Brazil's Senate approved a bill on Wednesday which would establish a mandatory carbon market aimed at reducing emissions. The move coincides with the COP29 summit in Baku, Azerbaijan, where Brazil committed to a 67% emissions reduction by 2035. Under the new system, companies that exceed emission limits can buy credits from those emitting below their quotas. Although Brazil already has a sizable voluntary carbon market and could generate up to 30.5 billion metric tons of carbon credits by 2050, according to Bloomberg NEF (left chart), critics have noted the bill's omission of the agricultural sector—responsible for a quarter of Brazil's greenhouse gas emissions (right chart). Despite the positive news, the S&P Brazil ESG Index declined by 0.3%





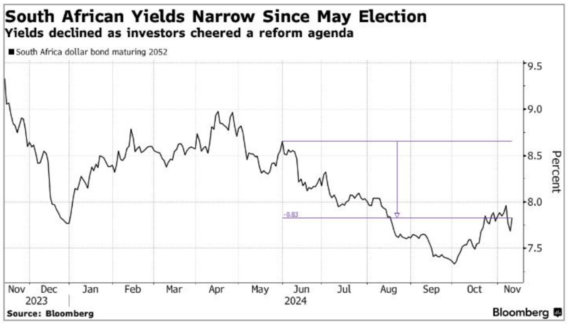
China



China's new dollar bond issuance generated strong demand, trading at negative spreads, about 24 and 25 bps under Treasuries. China raised $2 bn from three- and five-year dollar-denominated bonds, with bids surpassing $40 bn—20 times the amount offered—reflecting robust interest, particularly from Chinese investors seeking higher returns in a low domestic rate environment. Analysts attribute this demand to favorable financing conditions and the strengthening economic ties with Saudi Arabia. However, some argue that the modest size of the issuance may limit its impact on broader Asian sovereign debt markets, and credit rating agencies maintain a negative outlook on China. Meanwhile, some investors view the proceeds from the bond sale as a potential tool for stabilizing RMB if it weakens further. In other news, concerns are growing about the level of speculation among retail investors in the equity market, especially for volatile small cap stocks.

South Africa

South Africa's first dollar bond sale in two years receives significant demand. Bloomberg reports that South Africa issued its first dollar bond since 2022 earlier this week raising $3.5bn across two bonds with maturities of 12 and 30 years. According to Bloomberg, demand for the bonds exceeded $10bn. Investors have been positive on the country's new coalition government which has made growth one of its main priorities, with the yield on the 2052 bond declining since the country's election in May. This morning, the South African rand was weaker against the dollar (-0.7%), to trade around 18.35/$ while the 10Y government bond yield was stable at 10.42%.



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Global Financial Indicators

	Level		Change				
11/14/24 7:49 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,985	0.0	1.0	2.1	33.1	25
Europe		4,811	1.5	-0.8	-4.6	12.1	6
Japan		38,536	-0.5	-2.1	-3.4	15.0	15
China		4,040	-1.7	-2.6	4.8	12.0	18
Asia Ex Japan		74	-0.7	-3.5	-6.6	12.7	11
Emerging Markets		43	-0.6	-3.6	-6.5	9.7	7
Interest Rates					basis points		
US 10y Yield		4.4	-1	12	34	0	57
Germany 10y Yield		2.4	-1	-7	10	-22	35
Japan 10y Yield		1.1	1	5	11	20	45
UK 10y Yield		4.5	1	3	29	38	99
Credit Spreads					basis points		
US Investment Grade		119	3	0	-2	-36	-15
US High Yield		305	1	-7	-38	-128	-80
Exchange Rates					%		
USD/Majors		106.8	0.3	2.2	3.4	2.6	5
EUR/USD		1.1	-0.2	-2.4	-3.4	-3.1	-4
USD/JPY		155.9	0.3	2.0	4.1	3.7	11
EM/USD		44.0	-0.1	-1.6	-3.5	-8.0	-8
Commodities					%		
Brent Crude Oil ($/barrel)		72.7	0.5	-3.9	-5.7	-7.6	-3
Industrials Metals (index)		141.2	-0.9	-6.6	-6.7	1.5	-1
Agriculture (index)		56.0	0.0	-2.0	-0.6	-16.0	-10
Implied Volatility					%		
VIX Index (%, change in pp)		14.1	0.1	-1.1	-5.6	0.0	1.7
Global FX Volatility		8.5	0.0	0.2	0.0	1.0	0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		85	-2	-3	-7	-45	-19
Italy		123	-1	-6	-4	-58	-45
Portugal		47	0	-2	-3	-23	-17
Spain		72	-1	-1	-1	-32	-25

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

Emerging Market Financial Indicators

Last updated: 11/14/2024 7:50 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		7.24	-0.1	-1.3	-2.1	0.2	-1.9		1.9	0	-6	-9	-78	-65
Indonesia		15862	-0.5	-0.8	-1.9	-1.1	-2.9		7.0	4	17	28	1	48
India		84	0.0	0.0	-0.4	-1.3	-1.4		7.3	1	0	16	-29	5
Philippines		59	-0.1	-0.1	-2.2	-4.6	-5.8		4.9	-4	-4	7	-99	-71
Thailand		35	-0.4	-2.9	-5.0	1.4	-2.2		2.4	-1	-5	-12	-80	-34
Malaysia		4.49	-0.9	-1.8	-4.2	5.2	2.4		3.9	1	-2	9	0	16
Argentina		998	0.0	-0.5	-1.8	-64.9	-19.0		29.3	-132	-377	-1140	-7935	-5705
Brazil		5.81	-0.2	-2.0	-3.7	-16.3	-16.4		12.8	6	14	38	147	239
Chile		975	0.4	-2.6	-4.8	-8.6	-9.6		5.4	1	18	39	16	46
Colombia		4482	-0.7	-1.6	-6.2	-10.2	-13.5		8.5	0	23	50	30	85
Mexico		20.63	-0.6	-4.0	-6.0	-15.9	-17.7		9.5	3	14	44	60	104
Peru		3.8	-0.5	-0.7	-1.3	0.0	-2.7		6.7	0	-6	#VALUE!	-50	2
Uruguay		42	-0.6	-2.0	-2.4	-6.2	-8.5		9.4	-1	-3	-16	-27	-9
Hungary		386	-0.1	-3.1	-4.9	-10.6	-10.2		6.6	-9	-10	20	-46	84
Poland		4.12	-0.2	-3.1	-4.5	-1.9	-4.5		4.9	-3	-4	1	5	48
Romania		4.7	-0.2	-2.5	-3.4	-3.2	-4.6		6.8	4	1	23	5	59
Russia		99.8	-1.2	-2.3	-4.2	-9.2	-10.4							
South Africa		18.3	-0.6	-5.6	-4.2	-0.6	0.1		8.8	2	5	0	-53	-29
Türkiye		34.36	0.0	-0.3	-0.2	-16.7	-14.1		30.1	14	-50	24	-156	330
US (DXY; 5y UST)		107	0.3	2.1	3.3	2.6	5.3		4.30	0	13	40	-13	46

	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		4,040	-1.7	-2.6	4.8	12.0	17.7		100	-1	-16	-63	-58
Indonesia		7,215	-1.3	-0.4	-5.4	3.7	-0.8		77	-11	-11	-47	-19
India		77,580	-0.1	-2.5	-5.2	18.1	7.4		80	-7	-15	-48	-36
Philippines		6,557	-2.3	-6.5	-12.1	6.3	1.7		68	-7	-6	-33	-12
Thailand		1,450	-0.1	-1.3	-1.0	2.5	2.4		0	0	0	0	0
Malaysia		1,601	-0.7	-1.4	-2.5	9.1	10.0		60	-5	-14	-32	-25
Argentina		2,042,551	1.5	5.8	13.2	221.9	119.7		798	-70	-313	-1704	-1115
Brazil		127,734	0.0	-2.0	-2.5	3.7	-4.8		203	-8	-7	-26	-12
Chile		6,559	0.8	-0.1	-0.2	14.8	5.8		109	-3	-1	-38	-16
Colombia		1,338	-0.6	-1.9	0.9	20.8	11.9		310	-26	0	-10	39
Mexico		50,748	-0.7	-1.9	-2.4	-3.4	-11.6		286	-5	-11	-85	-48
Peru		30,621	0.5	0.8	0.1	40.1	18.0		133	-6	-5	-32	-11
Hungary		77,628	0.7	1.5	4.3	34.6	28.1		139	-18	-4	-59	-10
Poland		79,558	-1.0	-1.2	-4.5	7.3	1.4		102	-9	-2	-12	5
Romania		17,669	-0.1	1.9	0.4	20.5	14.9		194	-14	8	-10	-7
South Africa		83,983	0.2	-2.3	-2.8	14.4	9.2		272	-5	5	-114	-36
Türkiye		9,370	0.7	4.7	7.7	22.1	25.4		243	-12	-28	-145	-71
EM total		43	-0.3	-3.6	-6.5	9.7	7.4		362	-14	-23	-40	16

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

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