GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

MONDAY, NOVEMBER 18, 2024
LEAD EDITOR: FABIO CORTES

- **US post-election equity rally loses steam as investors bet on a slower pace of easing** (link)
- **US banks report tightener CRE and C&I loan standards** (link)
- **Japanese equities fall on weak corporate earnings guidance and tariff concerns** (link)
- **Foreign institutions continue to reduce holdings of Chinese interbank bonds** (link)
- **Outflows from EM funds accelerated last week** (link)
- **The South African rand strengthens on S&P outlook upgrade** (link)

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Markets cautious to start the week

European bourses fell modestly and US equity futures signaled a mixed opening this morning with investors on a wait and see mode. Over the past week, equity markets have been lower after the optimism in the aftermath of the US presidential election was tempered by investors increasingly wary about what's to come. Investors are seeking more news and clarity on president Trump appointments and policies. Investors are also reassessing their monetary policy outlooks, with Fed Fund futures pricing a 58% rate cut probability in the December 18 FOMC meeting this morning. Following chair Powell's speech on Thursday, Boston Fed president Collins said on Friday that a December rate cut was "on the table, but it's not a done deal", underlining the data dependent nature of future rate decisions. Advanced economy sovereign bond yields were modestly higher this morning, with euro area yield curves bear flattening. In emerging markets, the South African rand outperformed as S&P raised the outlook for South Africa to positive from stable citing increased political stability and impetus for reform.

Key Global Financial Indicators

Last updated: 11/18/24 8:34 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5871	-1.3	-2	0	30	23
Eurostoxx 50		4763	-0.7	-2	-4	10	5
Nikkei 225		38221	-1.1	-3	-2	14	14
MSCI EM		43	0.0	-4	-6	9	7
Yields and Spreads					bps		
US 10y Yield		4.48	4.4	18	40	5	60
Germany 10y Yield		2.40	4.7	8	22	-19	38
EMBIG Sovereign Spread		332	7	7	-19	-95	-51
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.1	0.0	-1	-2	-8	-8
Dollar index, (+) = $ appreciation		106.7	0.0	1	3	3	5
Brent Crude Oil ($/barrel)		71.5	0.6	0	-2	-11	-7
VIX Index (%, change in pp)		16.8	0.7	2	-1	3	4

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

In the **week ahead**, investors will focus on the incoming inflation data in the UK, Canada and Japan. The US, UK, euro area, Japan, Australia, and India flash PMI surveys for November are also expected, with investors looking for early signs of economic developments in some major economies after the US elections. The final October euro area inflation reading and updates to Germany, Denmark, and Norway GDP data are among the week major releases in Europe. Finally, key monetary policy decisions are expected by the South Africa Central Bank (-25 bps), the Central Bank of the Republic of Turkey (hold) and the Bank of Indonesia (hold).

Mature Markets

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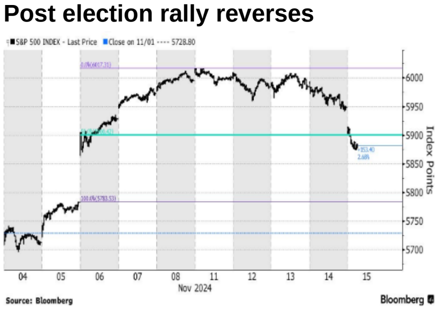
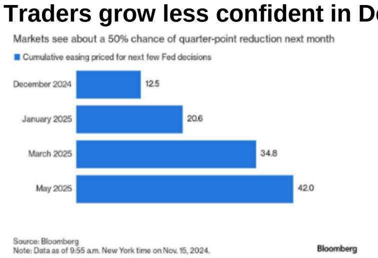
United States

The post-election equity rally is losing steam as investors bet on a slower pace of easing. The S&P 500 fell on Friday, with tech stocks leading the way (Nasdaq -2.2%). The benchmark fell 1.3%, marking its worst weekly performance since September 6, giving up more than half of the trough-to-peak gains it recorded following the US presidential election. Rising bond yields have weighed on stocks as investors scaled back interest rate cut bets. The 10-year Treasury note yield increased to 4.4%, while the 2-year note yield closed at 4.3% on Friday. According to analysts, the rise in long-term rates outpaced changes on shorter-tenors, continuing the weekly yield-curve steepening trend, as deficit concerns weighed more heavily on longer maturities. The probability that the Fed would deliver a quarter-point cut at its December meeting has now dropped to 50% from 80% earlier last week. Bets for rate cuts fell after Fed Chair Jerome Powell warned on Thursday that the central bank is not in a hurry to lower rates. Boston Fed President Collins added on Friday that a December rate decrease was “on the table, but it's not a done deal," underlining how the central bank's next move will be data dependent.

Post election rally reverses

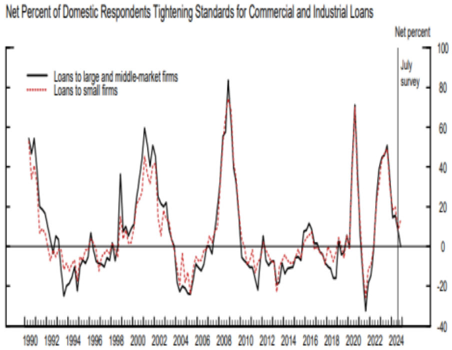


Traders grow less confident in December rate cut



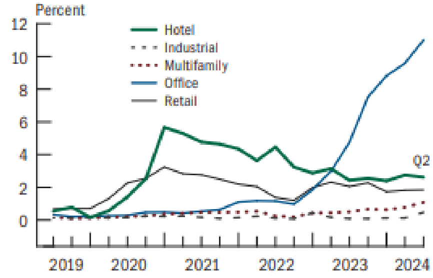
US banks report tightener CRE and C&I loan standards. The October 2024 senior loan officer opinion survey on bank lending practices (SLOOS), released last week, found that US banks tightened lending standards for credit card loans, commercial real estate (CRE) loans, and commercial and industrial (C&I) loans to small businesses in the third quarter of the year. Lenders reported virtually unchanged lending standards for home equity lines of credit, loans on the majority of residential real estate, as well as C&I loans to large and middle-market firms. In its supervision and regulation report, which was made public on Friday, the Fed also pointed out that in the second quarter of 2024, the default rate for CRE loans jumped to 11% at the large banks, the highest level since 2014. “Looking closer at the CRE sector, loans secured by offices, especially those in major cities, remained the top concern,” the report said. The note also mentioned how the multifamily portion of the CRE industry has been under some strain recently as operating costs increased, revenue growth slowed, and valuations declined for certain multifamily properties. However, as banks have been working to allay US bank regulators' concerns, the majority of banks continue to report capital levels above regulatory minimums, and liquidity and funding circumstances remain stable.

Net Percent of Domestic Respondents Tightening Standards for Commercial and Industrial Loans



Source: SLOOS (October 2024, released 11/12/24)

Income-producing CRE loan delinquency rates by property type

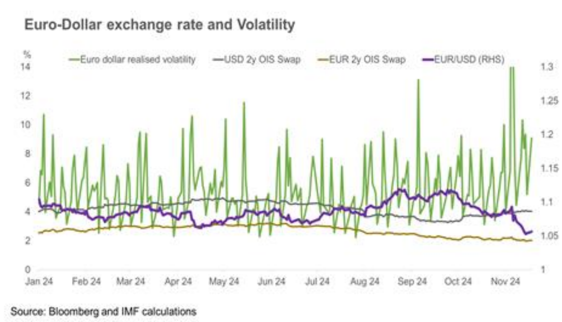


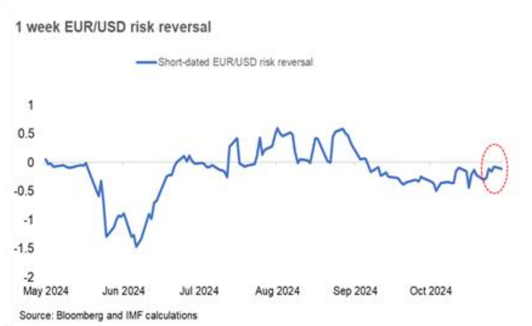
Note: Delinquent loans are those 30+ days past due or in nonaccrual status.

Source: FR Y-14Q.

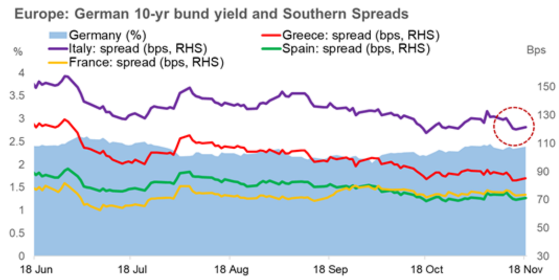
Euro area

European equities continued to edge lower today, with the Stoxx 600 index down by -0.2% dragged by losses in the real estate (-0.9%), information technology (-0.8%) and health care (-0.5%) sectors, and European bourses mostly in the red, with Italy underperforming (FTSE MIB index -1.5%). Analysts at JP Morgan maintain the view that euro area equities will continue to struggle in the post US elections backdrop until the potential new tariffs are announced and digested by investors, which would be expected to happen in Q1 of next year at the earliest. UBS foresees the equity risk premium to increase structurally in Europe if the outlook for the growth-inflation mix worsens in the coming quarters. In currencies, **the euro was little changed today against the dollar**, trading at $1.0540/€. Analysts at Commerzbank believe that, although the euro has already depreciated quite a bit in the aftermath of the US election, there is potential for a much weaker euro if talks on tariffs plans effectively progress in the US.

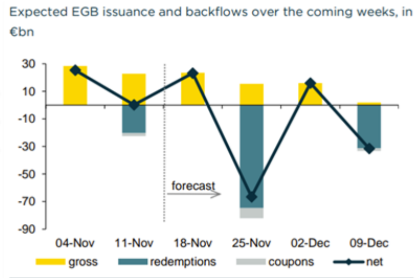




Euro area government bond yield curves slightly bear flattened this morning; with 2-year bund yields rising by 6 bps to 2.16% while the 10-year bund yields increased by 3 bps to 2.38%. Money markets marginally revised downwards expectations of rate easing by the ECB in 2025, pricing -137 bps of rate cuts by the October 2025 MPC meeting, versus -148bps priced on November 14. Analysts at Commerzbank see longer dated bund yields continuing to trade rangebound amid political uncertainty in Germany, with this week's data unlikely to give a new direction. Commerzbank expects this week's PMI to show persistently subdued sentiment in the euro area but warned that Q3 data on negotiated wages on Wednesday could be a setback for hopes of a larger than 25 bps cut in December. Analysts at ING expect Germany to carry out a somewhat looser fiscal policy after the upcoming elections in February. ECB vice president de Guindos warned today that “fiscal slippage or questions around fiscal consolidation paths could trigger further repricing of sovereign risk” as “current large primary deficits will also make it harder for governments to support the economy if adverse shocks materialize”. Several auctions of European government bonds are scheduled in seven European countries this week, for a total volume of around €23.5bn, led by France.



Source: Bloomberg and IMF calculations



Source: DMOs, Bloomberg, Commerzbank Research

Japan

The Nikkei 225 declined -1.1%, as disappointing corporate earnings guidance and tariff concerns dampened sentiment on Japanese equities. Despite the strength in financials, the corporate guidance surprise index (GSI) compiled by JP Morgan is showing a tendency toward downside surprises for earnings in Japan. This is more prominent in domestic demand-oriented and value equities, which had drawn favor from medium to long-term investors from August to October, indicating a misalignment of their equity positions with earnings momentum. JP Morgan analysts also note that investors appear concerned about the potential risk of being caught up in further escalation of US-China trade tensions in foreign demand-oriented stocks. Nomura analysts expect US import tariffs (under the scenario of a 60% tariff increase on China and 10-20% on other economies) will hit Japanese corporates through both rising input costs for production activities in the US and falling demand due to rising prices. End-user prices of textile products are estimated to increase while computer and electric equipment are also likely to be hard hit. Separately, **the yen depreciated as much as -0.5%**, with Bank of Japan governor Ueda not providing a clear indication of a potential interest rate hike for the December meeting in today's speech, reiterating his data-dependent approach and disappointing the market, which had anticipated a more hawkish stance. Meanwhile, the OIS market priced in more than a 50% chance of a rate hike in December.

Source: Bloomberg Finance L.P., J.P. Morgan QDS

Emerging Markets

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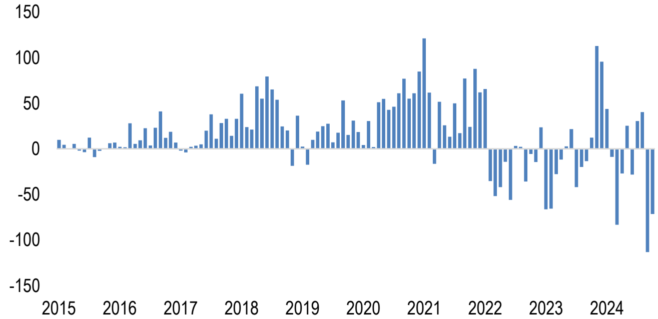
Asian equities lacked clear direction**.** Thai stocks gained 0.5% after its Q3 GDP showed the fastest expansion in eight quarters (+3.0% y/y), beating market estimates of +2.4% y/y. **EMEA equities were mostly trading higher, while currencies were mixed.** Equities in South Africa outperformed (+0.6%), while those in Türkiye underperformed (-0.4%). CEE currencies were mostly weaker against the euro, while the Turkish lira was trading weaker against the dollar (-0.3%). In **Hungary**, the **policy rate is expected to remain on hold amid forint weakness.** Consensus expectations are that the central bank will keep the policy rate unchanged at 6.5% tomorrow given on-going weakness in the forint. Analysts at Goldman Sachs noted that policymakers have been sensitive to moves in the EUR/HUF exchange rate and expect officials will maintain the pause in the rate cutting cycle given the currency has weakened beyond "the psychologically important" 400 level. Elsewhere, Bloomberg reports that **Senegal**'s ruling party looks set to seal a victory in yesterday's elections, which should allow President Faye to deliver on a series of reform measures in the country. LATAM markets traded mixed on Friday. Major currencies mostly **appreciated**, with the Colombian peso (+1.3%) **outperforming**. The Mexican peso strengthen**ed** (+0.**3**%) for the third straight session, reversing **some** of the early-week losses. This happened despite Mo**o**dy's downgrading Mexico's rating outlook from stable to negative. Mexican equities closed **slightly** lower (-0.2%).

China

Investor sentiment on Chinese equities was lifted by the regulator's guidelines aimed at enhancing investor returns, urging companies to create clear, specific, and actionable plans to improve their valuations. The equity market reacted positively in the morning, led by state-backed enterprises with price-to-book ratio of less than one. The CSI 300 rose as much as 1.5% before reversing the gains to close at a loss of -0.5%, while Chinese equities listed in Hong Kong ended 1.1% higher. Chinese banks outperformed, advancing 2.0% onshore. Meanwhile, property stocks also gained (+0.8%) on the news that the government is considering to expand the scope of shantytown renovations to about 300 cities. Separately, **foreign institutions reduced their holdings of Chinese interbank market bonds for the second consecutive month in October**, with significant reductions in their top three holdings: Chinese government bonds (CGBs), negotiable certificates of deposit (NCDs), and policy bank bonds. According to bond depository data, foreign holdings of CGBs were reduced by RMB71.55 bn (US$9.9 bn) to RMB2.1 tn. Although this was less than the reduction of over RMB100 bn in September, the outflow trend continued. Analysts attribute the outflows to the widening of the China-US interest rate spread in October amid increasing bets on Trump's victory in the US presidential election, reduced expectations of RMB appreciation, and portfolio rebalancing ahead of the inclusion of South Korean government bonds in the FTSE World Government Bond Index next year.

Changes of Foreign Holdings of Chinese Goverment Bonds
(In billions of RMB)



Source: CEIC

EM fund flows

Outflows from EM Funds intensified to -$6.3 bn last week. This was led by equity funds, which witnessed the largest weekly withdrawals since the COVID-19 sell-off, amounting to -$4.9 bn, up from -$1.4 bn in the week before. While bond funds also saw outflows, they decelerated significantly on a w/w basis to -$1.4 bn (from -$3.2 bn) due to a decline in hard-currency bond fund outflows. Local currency bond fund outflows, however, increased to -$0.9 bn from -$0.3 bn in the week before. Following this, the YTD fund outflows from EM bond and equity funds have risen to -$21.6 bn.

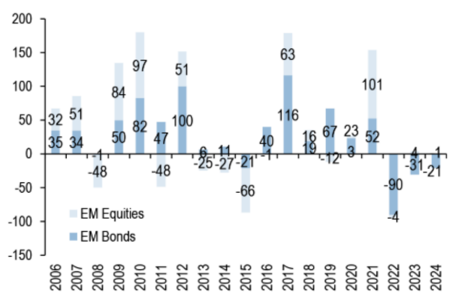
Figure 1: Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
Fund Flows			
EM Bonds and Equities		-6.3	-21.6
EM Bonds		-1.4	-20.5
Hard Ccy		-0.6	-12.2
Local Ccy^		-0.9	-8.3
o.w. EM ex-China		-0.8	-9.2
o.w. China		0.0	-1.6
EM Equities		-4.9	-1.1
US HG		0.3	327.1
US HY		1.8	29.4
Global Equities		40.3	254.6
EM Bond and Equity ETFs		-2.5	35.0
EM Bond ETFs		-0.2	-2.9
EM Equity ETFs		-2.3	37.9
Non-resident EM flows*		-5.6	-14.7

Figure 2: EM bond and equity fund flows

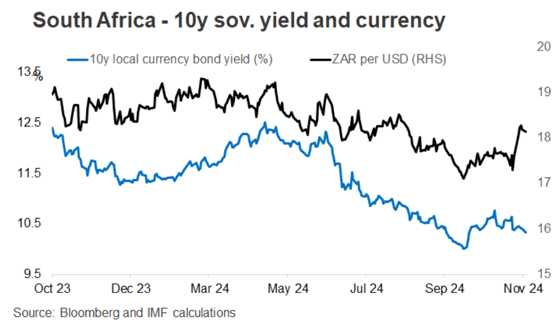
USD billion



*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.*

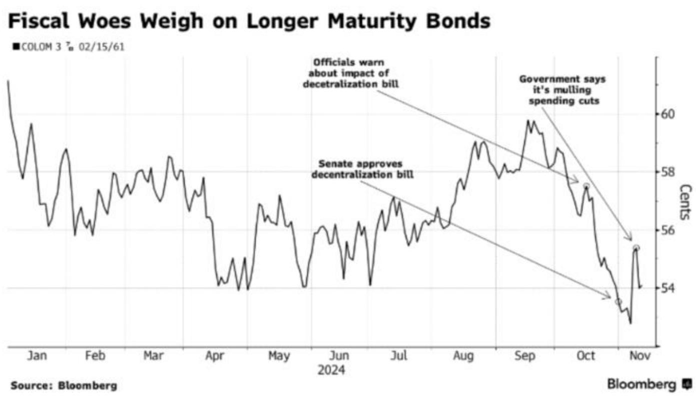
South Africa

The rand strengthened on S&P outlook upgrade. On Friday, S&P ratings raised the outlook for South Africa to positive from stable citing "increased political stability following the May elections and impetus for reform [which] could boost private investment and GDP growth". The ratings agency maintained its BB- rating on South Africa's foreign currency long-term debt. This morning, the rand extended Friday's gains and appreciated +0.4% to trade at 18.10/$, with the currency around 1.4% stronger year-to-date, making it one of the best performing emerging market currencies so far this year. Meanwhile the yield on South Africa's 10-year rand denominated bond was trading around 12 bps lower at 10.3%.



Colombia

Fiscal concerns are weighting on Colombia's sovereign bond prices. According to a news report, investors are anticipating more rating downgrades, as they expect the country's fiscal deficit to increase to 5.6% this year from 4.3% in 2023. Notably, the president had recently announced an overhaul of national budget wherein transfers from central government to regional governments would more than double to 39.5% by 2040. While the government argues this to be fiscally neutral, as the regional governments are also expected to undertake more expenditure, this overhaul has caused a sell-off in the currency and bond markets. The Columbian peso has depreciated by -4.3% since mid-October, while 30-year sovereign bonds are down -2.3 cents on the dollar.



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

	Level		Change				
11/18/24 8:34 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,866	-1.3	-2.3	0.0	29.9	23
Europe		4,763	-0.7	-1.9	-4.5	9.7	5
Japan		38,221	-1.1	-3.3	-2.0	13.8	14
China		3,950	-0.5	-4.4	0.6	10.7	15
Asia Ex Japan		73	-0.1	-4.0	-6.6	12.1	10
Emerging Markets		43	0.0	-3.8	-6.5	9.1	7
Interest Rates					basis points		
US 10y Yield		4.5	4	18	40	5	60
Germany 10y Yield		2.4	5	8	22	-19	38
Japan 10y Yield		1.1	1	8	11	33	47
UK 10y Yield		4.5	3	8	45	40	97
Credit Spreads					basis points		
US Investment Grade		121	0	7	0	-27	-13
US High Yield		312	-2	10	-24	-118	-73
Exchange Rates					%		
USD/Majors		106.7	0.0	1.1	3.1	2.7	5
EUR/USD		1.1	0.2	-0.9	-2.8	-3.5	-4
USD/JPY		155.1	0.5	0.9	3.7	4.5	10
EM/USD		44.1	0.0	-1.2	-2.4	-7.9	-8
Commodities					%		
Brent Crude Oil ($/barrel)		71.5	0.6	-0.5	-1.7	-8.1	-4
Industrials Metals (index)		142.7	-0.5	-2.0	-5.2	2.8	0
Agriculture (index)		56.2	0.0	-0.7	1.2	-13.6	-10
Implied Volatility					%		
VIX Index (%, change in pp)		16.8	0.7	1.8	-1.2	3.0	4.4
Global FX Volatility		8.7	0.1	0.2	0.1	1.3	0.6
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		86	2	-2	1	-41	-18
Italy		123	3	-4	5	-54	-45
Portugal		46	2	-4	2	-21	-18
Spain		71	1	-2	2	-29	-25

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

Emerging Market Financial Indicators

Last updated: 11/18/2024 8:38 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	-0.2	-0.4	-1.9	-1.0	-2.0		1.9	3	-2	-4	-76	-63
Indonesia		15850	0.0	-1.1	-2.4	-2.6	-2.9		6.9	-1	16	25	-4	43
India		84	0.0	0.0	-0.4	-1.2	-1.4		7.3	4	10	19	-26	9
Philippines		59	0.1	-0.1	-2.0	-5.4	-5.6		5.0	0	0	13	-96	-67
Thailand		35	0.1	-1.2	-4.7	0.9	-1.9		2.4	2	1	-4	-64	-33
Malaysia		4.48	-0.1	-1.5	-3.9	4.2	2.6		3.9	0	2	10	4	15
Argentina		998	0.1	-0.5	-1.9	-64.6	-19.0		28.3	-24	-280	-1222	-8259	-5806
Brazil		5.77	0.4	-0.3	-1.4	-15.9	-15.8		12.7	-7	13	-7	163	231
Chile		978	0.1	0.2	-2.5	-10.5	-10.1		5.3	0	3	34	6	41
Colombia		4416	0.3	-1.2	-3.3	-8.6	-12.7		8.4	0	7	10	18	74
Mexico		20.38	-0.1	-0.2	-2.5	-16.0	-16.7		9.3	-6	-10	21	43	89
Peru		3.8	-0.1	-0.9	-0.9	-0.7	-2.5		6.7	1	######	27	-41	2
Uruguay		43	0.3	-1.0	-2.9	-8.1	-9.1		9.4	8	0	-22	-14	-9
Hungary		387	0.1	-0.4	-4.8	-10.2	-10.2		6.6	5	-20	14	-8	79
Poland		4.09	0.1	0.0	-3.2	-2.8	-3.8		4.8	-1	-12	-10	5	37
Romania		4.7	0.2	-0.9	-2.9	-3.6	-4.4		6.8	0	10	28	-3	65
Russia		100.3	-0.3	-4.2	-5.0	-11.8	-10.8							
South Africa		18.1	0.6	-0.7	-2.6	1.5	1.6		8.8	-2	-10	-7	-46	-35
Türkiye		34.54	-0.3	-0.6	-0.9	-16.7	-14.5		30.2	23	24	52	-1	347
US (DXY; 5y UST)		107	0.0	1.1	3.1	2.6	5.3		4.33	2	14	45	-11	48

	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		3,950	-0.5	-4.4	0.6	10.7	15.1		98	-3	-16	-67	-60
Indonesia		7,134	-0.4	-1.8	-8.1	2.2	-1.9		89	2	-4	-29	-7
India		77,339	-0.3	-2.7	-4.8	17.5	7.1		77	-4	-15	-49	-39
Philippines		6,761	1.3	-2.6	-8.8	8.8	4.8		78	4	-1	-17	-2
Thailand		1,453	0.7	-0.3	-2.5	2.6	2.6		0	0	0	0	0
Malaysia		1,604	0.7	-0.3	-2.5	9.8	10.3		61	2	-11	-29	-24
Argentina		2,066,915	-1.0	5.2	13.4	220.4	122.3		769	-82	-279	-1685	-1144
Brazil		127,489	0.1	-0.3	-2.7	3.5	-5.0		215	11	6	-9	0
Chile		6,528	0.7	-0.2	-1.7	13.1	5.3		112	-1	-1	-29	-13
Colombia		1,346	-0.1	0.8	-1.2	19.6	12.6		326	9	18	14	55
Mexico		50,469	-0.2	-2.7	-4.8	-4.2	-12.1		298	8	-1	-68	-36
Peru		30,538	0.4	0.8	-0.7	37.2	17.6		141	4	equesting	-15	-3
Hungary		78,901	1.5	2.6	6.3	38.4	30.2		147	-1	0	-48	-2
Poland		78,776	-0.7	-4.2	-4.7	6.3	0.4		108	-3	-1	-5	11
Romania		17,482	-0.9	-0.2	0.4	19.0	13.7		204	5	16	-14	3
South Africa		84,397	0.6	-0.4	-3.2	14.2	9.8		284	17	13	-80	-24
Türkiye		9,370	-0.2	1.0	6.6	19.3	25.4		252	2	-20	-118	-62
EM total		43	0.5	-3.8	-6.5	9.1	6.8		370	5	-12	-24	25

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

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