GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, NOVEMBER 21, 2024

LEAD EDITOR: PATRICK SCHNEIDER

- **Market participants have become more bearish on the euro** (link)
- **ECB's FSR highlights rising sovereign risk and corporate vulnerabilities** (link)
- **The RMB reference rate has diverged from market estimates in recent days** (link)
- **Bitcoin investors bet on further gains** (link)
- **Türkiye kept the policy rate unchanged at 50% in line with expectations** (link)

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Cautious mood prevails amid geopolitical tensions and policy uncertainty

Risk assets struggled to gain traction following mixed Nvidia earnings, renewed geopolitical fears, and a lack of policy clarity following the US election. Global stock markets were mixed today, with few significant moves in either direction, while US stock futures were up slightly. The euro and most EM currencies were lower following reports that Russia launched an ICBM for the first time in an attack against a Ukrainian city. Oil prices also rose, with Brent crude back above $74 per barrel. Treasury yields were slightly lower this morning. Jobless claims were mixed, with lower than expected initial claims but higher than expected continuing claims. Yesterday, AI bellweather Nvidia beat earnings expectations but the outlook fell short of the most optimistic expectations and the stock slumped lower. Conversely, Bitcoin prices continue to set new record highs with the headline friendly $100,000 target in sight. Elsewhere, investors continue to focus on who the next US Treasury Secretary will be for clues about the incoming Administration's policy priorities.

Key Global Financial Indicators

Last updated: 11/21/24 8:44 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5917	0.0	-1	1	30	24
Eurostoxx 50		4731	0.0	-2	-4	9	5
Nikkei 225		38026	-0.9	-1	-1	14	14
MSCI EM		43	-0.1	0	-5	9	8
Yields and Spreads					bps		
US 10y Yield		4.38	-2.6	-5	19	-1	51
Germany 10y Yield		2.31	-4.6	-4	2	-26	28
EMBIG Sovereign Spread		331	-3	9	-6	-93	-53
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.1	-0.1	0	-2	-8	-8
Dollar index, (+) = $ appreciation		106.7	0.0	0	3	3	5
Brent Crude Oil ($/barrel)		74.1	1.8	2	0	-10	-4
VIX Index (%, change in pp)		16.5	-0.7	2	-2	3	4

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

Mature Markets

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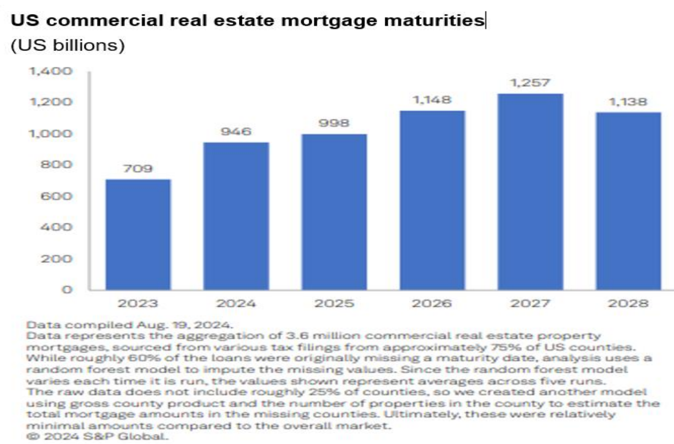
United States

Initial jobless claims came in at 213k (vs 220k expected) while continuing claims were 1908k (vs 1880k expected). Bloomberg analysts noted that lingering effects from recent hurricanes and the Boeing strike from earlier the month could be impacting the data but the net direction wasn't immediately clear.

NVDIA beat earnings expectations, but a cautious outlook weighed on markets. Investors had been eagerly looking forward to the earnings report given NVIDIA's status as the pillar of AI optimism and the largest company in the world**.** The firm beat analyst forecasts for revenues (by 5.5%) and EPS (by 9.5%). Upgraded revenue guidance for the fourth quarter fell short of the most optimistic expectations. In addition, while demand for newer Blackwell chips is extremely strong, the company will continue to face production constraints. The stock fell as much as 4% but pared the losses quickly.

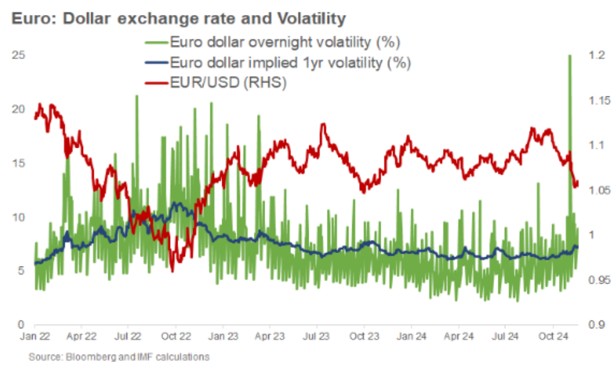


Analysts remained concerned about office commercial real estate (CRE). S&P Market Intelligence highlighted that US CRE may not see immediate relief from the Federal Reserve's easing cycle as important indicators of asset quality continue to deteriorate. Lower interest rates would boost refinancing prospects for fixed rate loans. However, Fitch noted that defaults around maturing debt may continue as those loans would still need to be refinanced at higher rates than the outstanding debt, which could be problematic for those backed by struggling class B/C offices and malls. Office buildings account for around 10% of the $950 billion in CRE loans that mature in 2024. Despite having more loss reserves, analysts expect banks' net charge-offs to climb from 0.52% of average loans in 2023 to 0.71% in 2024.

Europe

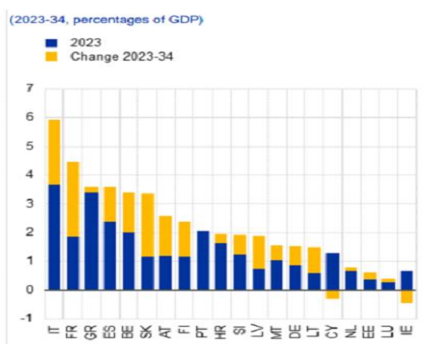
European equities were mixed this morning, with the Stoxx 600 index little changed in the afternoon, while European government bond yields edged lower. The 10y bund yield declined around 3 bps today but has fluctuated since yesterday with contacts pointing to the sharp increase in euro area wage growth alongside geopolitical concerns. Commerzbank analysts believe that signs of escalating geopolitical tensions should continue supporting bund prices, while bund swap spreads have stabilized after falling to the cheapest levels in history last week**.** Ahead of Moody's review of Italy's Baa3 rating tomorrow, the 10y German-Italian spread widened (+3bps) to around 126bps. Citibank analysts noted that the recent improvement in Italy's fundamentals could see Moody's lift the rating outlook to positive.

Analysts and market participants have become more bearish on the euro, with geopolitical tensions adding to concerns about US policy developments. Currency strategists had revised their forecasts for the euro lower following the US elections, with some expecting the euro to fall toward parity with the dollar. ING analysts noted that the euro has come under pressure this week following concerns about escalating tensions around the Russian invasion of Ukraine. Relatedly, the analysts highlighted that European natural gas prices have been rising higher, with Netherlands natural gas futures up 2.5% yesterday and a further 2.4% this morning. Options markets also indicate bearish sentiment, with one month risk reversals on EUR/USD yesterday at 0.81% in favor of puts (compared to 0.64% last Friday). **The euro declined against the dollar (-0.3% to 1.0517) this morning and is down about 4.7% year to date.**

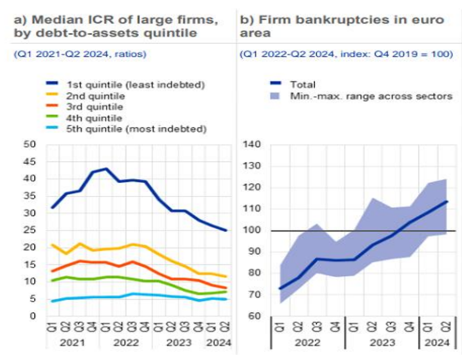


ECB's Financial Stability Review highlighted rising sovereign risk and corporate vulnerabilities. The ECB's November Financial Stability Review (FSR) highlighted that elevated policy and geopolitical uncertainty alongside weak fiscal fundamentals and tepid growth has increased sovereign vulnerabilities. The report further cautioned that fiscal slippage or a lack of clarity on fiscal consolidation could result in the further repricing of sovereign risk with the potential to spillover and impact core funding markets. The FSR noted that credit risk for some corporates and households could impact both banks and nonbank financial institutions (NBFIs). Fragility among some corporates and lingering CRE concerns also have compounded the risks. Potential spillovers across the financial system have been amplified by leverage and liquidity mismatches among some NBFIs, as well as concentrated investment exposures. On the bright side, the FSR highlighted relatively strong household finances and banks' recent financial performance and capital.

Projected interest payments on sovereign debt across euro area countries



Corporate solvency indicators

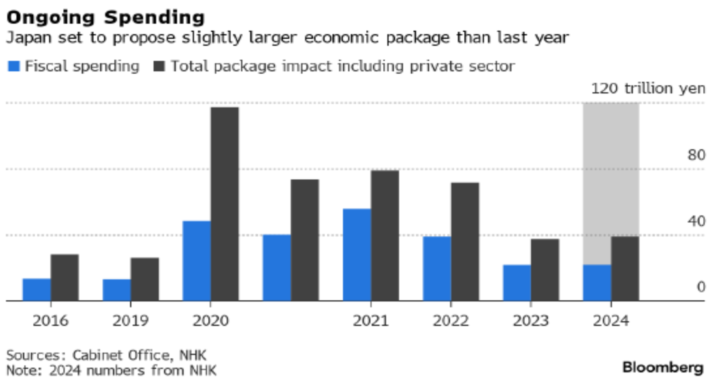


Source: European Central Bank

Japan

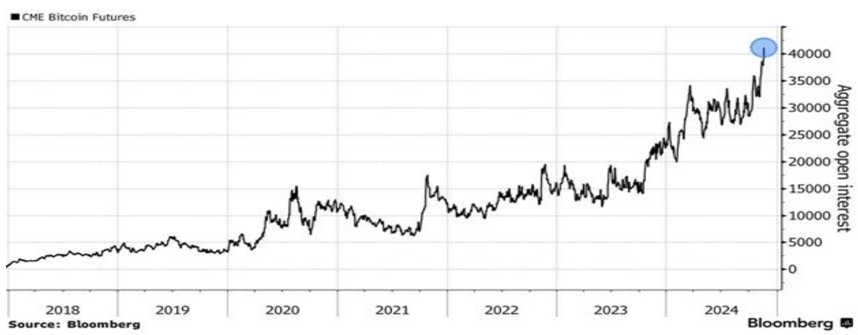
The yen gained 0.6% following Governor Ueda comments as investors debate a possible rate hike in December. BOJ Governor Ueda noted the significance of the yen in his assessment of the economy and inflation during a public speech. Although Governor Ueda emphasized that the meeting outcome is far from certain, his speech revived the possibility of a rate hike in the upcoming meeting. According to a Bloomberg survey, about half of economists surveyed last month expect a rate hike in December while more than 80% expect a rate hike by January.

Prime Minister Ishiba is expected to introduce a $140 bn stimulus package, following his election promises to alleviate cost of living pressure. According to Bloomberg, the package will focus on sustained wage gains, cash handouts for low-income households, and support for the semiconductor and artificial intelligence sectors. Moreover, the government also said it will resume subsidies for gas and electricity bills from January to protect households from higher commodity prices. By NHK's estimate, total measures associated with the package will add up to ¥21.9 tn, slightly larger than last year's measures.



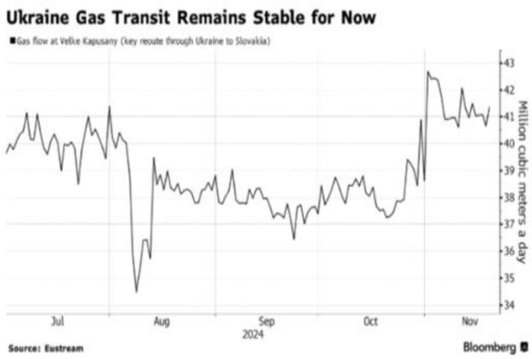
Bitcoin

Investors are betting on further gains even as Bitcoin reaches new record highs. Bitcoin rose above $97,0000 on Thursday and has risen about 40% since the November elections. Bloomberg reported that about 80% of the 350,000 options contracts traded on BlackRock's iShares Bitcoin Trust on Tuesday were bets on further gains. Moreover, open interest in futures markets has risen to record highs as the euphoria continues to build. Analysts believe several factors have contributed to recent gains, including the incoming Administration's pro-crypto stance, the possibility of establishing a Bitcoin strategic reserve, and massive buying by MicroStrategy, the largest corporate Bitcoin holder. MicroStrategy—whose stock has soared by more than 600% this year—stated on Wednesday that it was planning to increase Bitcoin purchases by 50%. Earlier this week, the company stated that it had purchased $4.6 billion of the token, bringing its total holdings to more than $30 billion.



Commodities

European natural gas prices have surged as geopolitical tensions escalated. The net long position of investment funds in benchmark Dutch gas futures rose 21% over the last week, pushing prices close to their highs for the year. While gas supplies to Europe, including from Russia via Ukraine, have been stable thus far, media reports noted that energy investors have been closely monitoring the impact of any escalations as winter approaches. The FT reported that Russia fired an ICBM for the first time in this conflict in an attack on the Ukrainian city of Dnipro. Notably, Russian gas supplier Gazprom PJSC cut off supplies to OVM AG last week, and a transit deal between Russia and Ukraine is set to end later this year.



Emerging Markets

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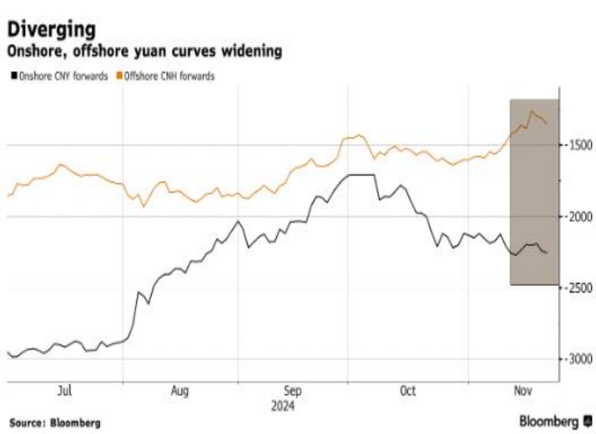
EMEA equities were mixed while currencies were mostly weaker this morning. CEE stock markets edged slightly lower today, with Czechia underperforming (-0.3%), while currencies declined against the euro. **South Africa's central bank cut the policy rate by 25 bps to 7.75% as expected**. ING analysts have a constructive view on the rand, given relatively high real interest rates, an improving economy, and more consistent electricity supply.

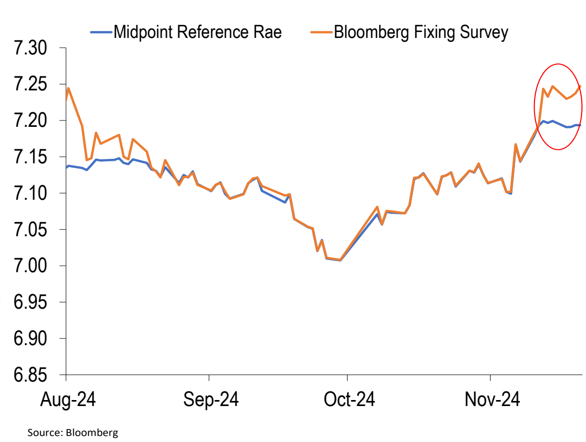
Asian currencies were mixed on the day while regional equity markets posted modest declines across the board. In the Philippines, the peso is near a record low following BSP governor Remolona's comments suggesting a possible rate cut in its December meeting. The peso fell 0.1% to 58.985 per dollar, close to the 59 per dollar level last seen in 2022.

In Latin America, regional currencies were mostly lower on Wednesday amid broad US dollar strength. The Mexican peso led the way, down 0.8%, followed by the Colombian peso (-0.2%). Fitch affirmed Colombia's sovereign rating at BB+ with a stable outlook.

China

The gap between the onshore RMB reference rate set by the PBOC and the market estimate widened to 539 pips today and has remained relatively large in recent days as the PBOC seeks to manage depreciation expectations. Some market participants noted that when the onshore spot rate rose above 7.30 per dollar previously, the daily fixing was set more 1,000 pips below market estimates, indicating that 7.30 per dollar level could be critical level for the PBOC to defend. Meanwhile, **onshore and offshore forward rates have diverged since October,** suggesting that pressure may be building in offshore markets as the incoming Trump Administration takes shape.



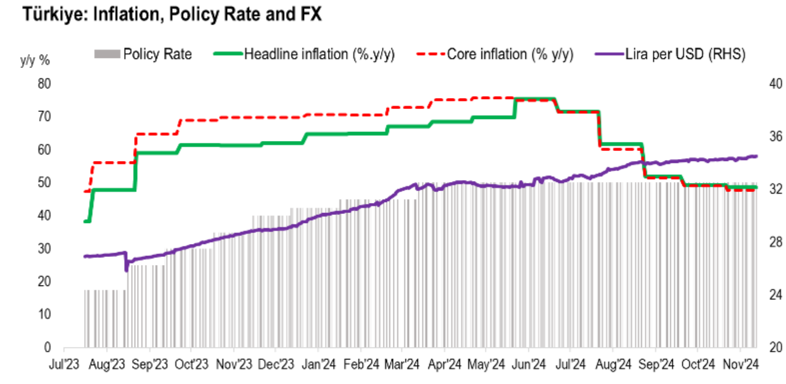


India

US prosecutors charged Adani Group founder Gautam Adani with participating in an alleged bribery scheme, sending the flagship Adani Enterprises' shares down as much as 23%. The firm cancelled a planned bond issue and denied the allegations. Given the timeline, the decision on how and when to proceed will fall to the incoming Trump Administration. The constellation of Adani firms came under heavy pressure in January 2023 following a report by the short seller Hindenburg but had since mostly recovered. **India' benchmark Nifty Index fell 0.7% on the day is down over 10% since late September amid heavy foreign outflows.**

Turkiye

Equities gained 2.6% and the lira was little changed after the central bank kept its policy rate unchanged at 50% today, in line with expectations. In the statement, the central bank highlighted that inflation declined in October, with both headline (48.5% y/y from 49.4% y/y previously) and core (47.7% y/y from 49.1% y/y previously) falling. Economic indicators from the fourth quarter also suggest that domestic demand continues to slow to levels consistent with disinflation. The central bank stressed that while inflation expectations and pricing behavior have improved, a tight monetary stance will be maintained until a significant and sustained decline in the underlying trend of monthly inflation is observed (2.8% m/m in October, down slightly from 2.9% m/m in September).



Source: Bloomberg and IMF calculations

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Global Financial Indicators

	Level		Change				
11/21/24 7:36 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,917	0.0	-1.1	1.1	30.4	24
Europe		4,735	0.1	-2.0	-4.2	9.3	5
Japan		38,026	-0.9	-1.3	-2.4	14.0	14
China		3,989	0.1	-1.2	0.8	12.6	16
Asia Ex Japan		74	-0.1	0.6	-4.7	12.8	12
Emerging Markets		43	-0.1	0.4	-4.9	9.5	8
Interest Rates					basis points		
US 10y Yield		4.4	-2	-5	19	0	51
Germany 10y Yield		2.3	-4	-3	3	-25	29
Japan 10y Yield		1.1	2	4	14	40	49
UK 10y Yield		4.4	-3	-5	30	33	90
Credit Spreads					basis points		
US Investment Grade		119	1	1	-2	-27	-14
US High Yield		311	0	6	-26	-116	-74
Exchange Rates					%		
USD/Majors		106.7	0.0	0.0	2.6	3.0	5
EUR/USD		1.1	-0.2	-0.1	-2.7	-3.6	-5
USD/JPY		154.5	-0.6	-1.1	2.4	4.1	10
EM/USD		44.1	-0.2	-0.2	-2.2	-8.4	-8
Commodities					%		
Brent Crude Oil ($/barrel)		74.3	2.0	2.4	0.5	-6.3	-1
Industrials Metals (index)		145.0	-0.2	2.3	-2.9	3.1	2
Agriculture (index)		56.7	0.2	1.8	2.0	-14.3	-9
Implied Volatility					%		
VIX Index (%, change in pp)		16.5	-0.7	2.2	-1.9	3.2	4.1
Global FX Volatility		8.6	0.0	0.1	-0.1	1.1	0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		87	1	3	-2	-33	-17
Italy		125	2	5	2	-50	-43
Portugal		48	2	2	1	-17	-16
Spain		72	1	2	0	-27	-25

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

Emerging Market Financial Indicators

Last updated: 11/21/2024 7:35 AM	Exchange Rates: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Local Currency Bond Yields (GBI EM): Level Last 12m	Latest	Change (in basis points) 1 Day	7 Days	30 Days	12 M	YTD
		vs. USD	(+) = EM appreciation						% p.a.					
China		7.24	0.1	-0.2	-1.7	-1.4	-2.0		1.9	-1	0	-9	-81	-66
Indonesia		15925	-0.4	-0.4	-2.7	-3.0	-3.3		6.9	2	-4	28	26	44
India		85	-0.1	-0.1	-0.5	-1.4	-1.5		7.2	-1	-3	9	-34	2
Philippines		59	-0.1	-0.4	-2.4	-6.1	-6.1		4.9	0	1	13	-98	-69
Thailand		35	0.2	1.3	-3.5	1.7	-1.4		2.4	-1	0	-3	-59	-34
Malaysia		4.47	0.1	0.4	-3.6	4.3	2.8		3.8	-2	-8	2	-5	8
Argentina		1003	-0.1	-0.5	-1.9	-64.7	-19.4		28.3	-6	-98	-1075	-8182	-5803
Brazil		5.82	-0.8	-0.4	-2.1	-15.8	-16.5		12.8	-5	7	8	172	239
Chile		973	0.0	0.3	-2.1	-10.5	-9.6		5.2	-1	-17	8	-4	25
Colombia		4402	-0.2	1.7	-2.9	-8.3	-12.4		8.1	0	-33	-31	1	48
Mexico		20.37	-0.5	0.1	-1.9	-15.6	-16.7		9.2	0	-23	-34	20	72
Peru		3.8	-0.1	0.3	-0.9	-1.7	-2.5		6.7	0	7	30	-33	6
Uruguay		43	0.2	1.1	-2.6	-7.6	-8.7		9.4	1	1	-20	-8	-8
Hungary		391	-0.5	-1.2	-5.0	-10.6	-11.1		6.6	5	2	-10	-12	80
Poland		4.13	-0.4	-0.5	-3.2	-2.9	-4.6		4.7	-1	-25	-37	-10	19
Romania		4.7	-0.2	-0.1	-2.8	-3.7	-4.7		6.9	3	11	30	6	70
Russia		100.8	-0.3	-1.8	-4.2	-12.4	-11.2							
South Africa		18.1	0.0	0.8	-2.8	2.9	1.3		8.6	-9	-20	-33	-61	-54
Türkiye		34.50	-0.1	-0.5	-0.8	-16.5	-14.4		30.1	-6	4	26	-6	334
US (DXY; 5y UST)		107	0.0	0.0	2.6	3.1	5.3		4.26	-2	-7	27	-14	41

	Equity Markets: Level Last 12m	Latest	Change (in %) 1 Day	7 Days	30 Days	12 M	YTD	Bond Spreads on USD Debt (EMBIG): Level Last 12m	Latest	Change (in basis points) 7 Days	30 Days	12 M	YTD
									basis points				
China		3,989	0.1	-1.2	1.4	11.4	16.3		100	0	-14	-64	-58
Indonesia		7,141	-0.5	-1.0	-8.1	2.6	-1.8		92	15	-1	-36	-4
India		77,156	-0.5	-1.9	-4.9	17.0	6.8		81	1	-12	-43	-35
Philippines		6,863	-1.6	4.7	-7.3	10.5	6.4		82	14	3	-24	2
Thailand		1,440	-1.5	-0.7	-3.2	1.2	1.7		0	0	0	0	0
Malaysia		1,589	-0.6	-0.7	-3.5	8.6	9.2		64	4	-5	-23	-21
Argentina		2,145,972	1.0	6.7	17.9	170.8	130.8		726	-72	-374	-1527	-1187
Brazil		128,197	0.3	0.3	-1.8	1.8	-4.5		207	4	0	-17	-8
Chile		6,576	0.4	1.5	-1.4	13.6	6.1		111	2	1	-27	-14
Colombia		1,386	1.2	2.9	2.2	22.8	16.0		312	2	10	-10	41
Mexico		50,169	-0.1	-1.8	-5.0	-4.4	-12.6		299	13	2	-64	-35
Peru		30,662	0.1	0.1	0.0	37.1	18.1		139	6	5	-18	-5
Hungary		79,244	0.2	1.9	7.1	40.4	30.7		152	13	9	-42	3
Poland		78,866	1.2	-2.6	-3.9	5.6	0.5		111	9	5	-2	14
Romania		17,249	0.3	-2.4	-1.1	17.0	12.2		211	17	27	-6	10
South Africa		85,520	0.3	2.0	-1.8	15.1	11.2		283	11	12	-66	-25
Türkiye		9,282	2.8	-1.5	7.3	15.4	24.3		254	11	-21	-104	-60
EM total		43	-0.4	0.4	-4.9	9.5	7.8		367	6	-14	-19	22

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

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