- **Romanian assets under pressure following first round of presidential election** (link)
- **Divergent policy paths expected for Europe and the US** (link)
- **Sharp drop in book value of Japanese insurers' bond holdings as JGB rates rise** (link)
- **The PBOC kept the one-year medium-term lending facility rate unchanged at 2%** (link)
- **FX volatility expected to rise in major currency pairs post-US election** (link)
- **EM equity funds experience highest outflows since March 2020** (link)

Mature Markets | Emerging Markets | Market Tables
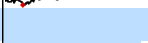
Data-heavy, US holiday-shortened week

Markets face a raft of key data releases and political developments to digest in this US holiday-shortened week. This morning, news of the appointment of Scott Bessent to the position of US Treasury Secretary was met with some investor c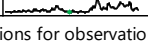heer with US equity index futures pointing to a positive open, following Asian stocks higher, and yields on 10-year US Treasuries declining. European government bond yields were slightly higher and the euro firmer against the US dollar on comments from ECB officials that monetary policy in the euro area will evolve independently of the Federal Reserve. Separately, news of a takeover bid from Italian bank UniCredit for domestic rival Banco BPM was gaining interest. Meanwhile France's budget negotiation process is bringing domestic political stability concerns to the fore with the spread of 10Y French OATs over German bunds climbing to over 80bps this morning. Some analysts caution that S&P's rating review of France scheduled for Friday may further add to investor concerns. Elsewhere, Romanian bond yields were sharply higher on a surprise preliminary outcome in the first round of the country's presidential elections.

Key Global Financial Indicators

Last updated: 11/25/24 12:41 PM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5969	0.3	2	3	31	25
Eurostoxx 50		4798	0.2	0	-3	10	6
Nikkei 225		38780	1.3	1	2	15	16
MSCI EM		43	0.0	1	-4	9	8
Yields and Spreads					bps		
US 10y Yield		4.37	-3.3	-5	13	-10	49
Germany 10y Yield		2.26	1.5	-12	-3	-39	23
EMBIG Sovereign Spread		329	0	-3	-13	-86	-54
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		43.9	0.3	-1	-2	-8	-9
Dollar index, (+) = $ appreciation		107.0	-0.5	1	3	4	6
Brent Crude Oil ($/barrel)		75.2	0.0	3	-1	-7	-2
VIX Index (%, change in pp)		15.0	-0.2	-1	-5	3	3

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

The coming week is packed with economic activity data from the US and the euro area, along with rate decisions in several other countries. Key economic updates from the US coincide with the Thanksgiving break, which typically sees relatively low market liquidity. Among the most important US releases will be the PCE inflation reading, alongside a mix of soft and hard economic data, including consumer confidence, GDP, durable goods, and jobless claims. Collectively they will provide crucial insights for policymakers ahead of the final rate-setting meeting of 2024, where a rate cut is now half priced in. In the euro area, inflation data (flash CPI) will be released, with additional CPI releases from major countries like Germany, France, Italy, and Spain which will be scrutinized for detail on the progress on disinflation. Japan will release a range of economic data, including Tokyo CPI, retail sales, and jobless numbers, which will inform discussions on the future path of policy rates. Central bank decisions are expected from Israel (hold), Nigeria (+50bps), New Zealand (-50bps), South Korea (hold), and Sri Lanka (-25bps). Additionally, Ireland will hold general elections on Friday.

Mature Markets   back to top

United States

Currency traders anticipate increased volatility in the foreign exchange market following the US elections. The exact content, speed of implementation and impact of the US policies remains uncertain, but market analysts largely expect these policies to create macro-economic divergences across major countries. As a result major currency pairs are likely to break out of their historically tight ranges and generate substantial volatility in the market. Following the election, one-year volatility on the euro-dollar exchange rate surged, leading hedge funds to buy options contracts that benefit from currency swings. While much of the hedging activity concentrates on the euro, the Australian dollar, the yen and the Chinese yuan have also been popular volatility trades. Is the risk of market turbulence overestimated? While some see normalisation as likely, more firm Republican control over legislation leaves Deutche bank analysts concerned that a full implementation of the incumbent US president agenda is only 30% priced in.

Euro Traders Start Hedging Long-Term Price Swings
One-year volatility jumped last week by the most in 20 months

One-Year Options in Australian Dollar Get More Overpriced
Further greenback gains are expected to result in costlier hedging

Crypto business initiatives are emerging amid hopes of deregulation in the sector. Markets anticipate of a more crypto-friendly environment under a new US administration, which is driving a surge in crypto-related ventures. Several trends are emerging: The demand for crypto derivative products is on the rise, evidenced by the successful launch of options on BlackRock's spot Bitcoin ETF and increased inflows into crypto derivatives products like the Leveraged MicroStrategy ETF. At the same time, financial institutions such as Goldman Sachs and JPMorgan are increasingly exploring tokenization and private blockchain technologies to engage with both crypto and non-crypto-native clients, thereby integrating more deeply into the traditional financial system. Finally, corporate treasuries are increasingly adopting bitcoin as part of their reserves, a trend particularly noticeable among smaller corporations.

Figure 10: Monthly flows into spot bitcoin ETFs , spot ethereum ETFs and leveraged MicroStrategy ETF
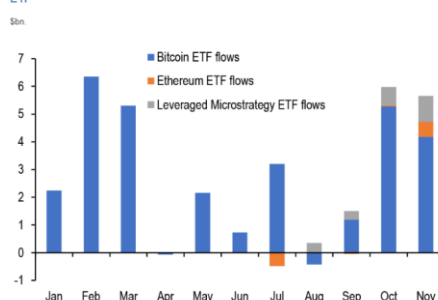

Source: Bloomberg Finance L.P., J.P. Morgan.

Europe

European equities traded in the green today, with the Stoxx 600 up by +0.4% led by gains in the information technology (+1.1%), consumer discretionary goods (1%) and real estate (0.6%) sectors. Stock markets were higher in all major European countries. The euro regained some ground against the dollar this morning (+0.6% to $1.0478/€) on comments from ECB officials that euro area monetary policy will evolve independently of the US. Analysts at Bloomberg believe that the recent weakness of the euro (-5.7% QtD, -4% since US elections) against the dollar is partly due to a shift in expectations toward more aggressive ECB easing combined with weak Eurozone data, and partly to expectations of stronger US growth and a more hawkish stance by the Federal Reserve. Commerzbank notes that last week's diverging PMI figures in the US and in Europe confirmed the significant growth advantage of the US over Europe, which may increase further as a result of the expected policies of the Trump administration, justifying a possible pause on rate cuts from the Fed in December that could further weigh on the euro as money markets price-in -34bps of policy rate easing by the ECB in December (37% likelihood of 50bps rate cut) against -29bps a week ago.
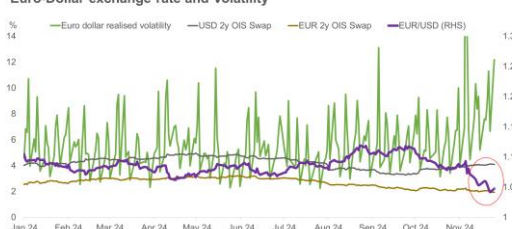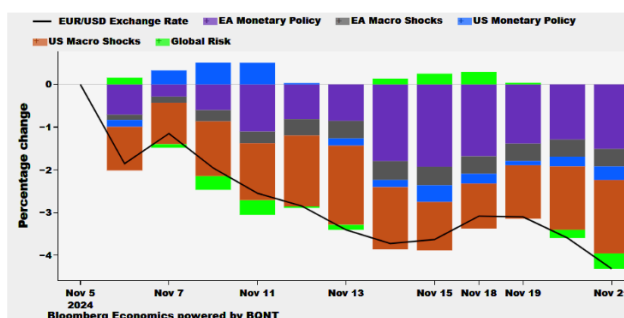
European government bond yield curve marginally flattened this morning, led by moves on the shorter end of the curve (2y Bund yields +4bps to 2.03% and 10y Bund yields little changed at 2.24%). Southern spreads slightly increased this morning, with the 10y Italian BTP -German Bund spread trading at around 127bps (+2bp) and the 10y French OAT-Bund spread at 82bps (+2bps) ahead of France's rating review by S&P on Friday. France is currently rated at AA- by S&P, which is one notch lower than Moody's (negative outlook) and the same level as Fitch (negative outlook). On the data front, Germany's November Ifo survey disappointed relative to expectations with the business climate index falling to 85.7pts (86pts exp, 86.5 prior) while the expectations index was slightly better than expected at 87.2pts (87 exp, 87.3 prior). Meanwhile on the corporate front, UniCredit launched a takeover bid on Banco BPM (third largest Italian bank), reviving prospects of domestic as well as cross-border consolidations in the European banking sector. Analysts at Bloomberg see UniCredit's €10bn bid for Banco BPM as not implying that its interest in acquiring Commerzbank is over, as the proposed deal for Banco BP, given its all-shares exchange nature, may only delay UniCredit's pursuit of Commerzbank.

Japan

Sharp drop in book value of insurers' bond holdings as JGB rates rise. Losses on the book valuation of domestic bonds held by Japan's four major life insurers more than doubled from March as interest rates climbed. According to data from the insurers, valuation losses on debt held totaled ¥4.622 tn ($30 bn) as of the end of September, compared to ¥2.051 tn in March. Although these bonds tend to be held to maturity and thus have

Paper losses on Japanese bonds (in yen)	End-March	End-June	End-Sept.
Nippon Life	1.012T	2.44T	2.019T
Dai-ichi Life	477.7B	1.377T	1.018T
Sumitomo Life	400.1B	812.5B	1.005T
Meiji Yasuda Life	161.4B	876.6B	580.2B

little effect on the insurers' earnings, the deep losses remain a concern for insurers because they could worsen measures of the firms' liability payment capacity. Yields on 30-year JGBs have jumped about 72 bps this year to around 2.29%.

Emerging Markets   back to top

Asian equities were mostly positive, while China bucked the regional pattern (-0.5%) as investors look for additional and stronger fiscal measures to revive the economy. For the week ahead, investors in Asia will be closely monitoring Japan's inflation data, released on Friday, for guidance to the December BOJ policy meeting. In Singapore, core inflation for October slowed to 2.1%, y/y, the weakest pace since December 2021, as healthcare and recreation price gains eased. The MAS had indicated in its latest review that the disinflation trajectory is "well entrenched". Currencies gained on a broad basis against the dollar.

EMEA equities and currencies were mixed this morning. Equity markets in Poland outperformed while Romania's assets underperforming following partial results of the first round of the presidential election. CEE currencies were mostly stronger against the euro. **Meanwhile, Latin American regional assets mostly declined on Friday amidst a broader risk-aversion**. The Chilean Peso depreciated -1.2% against the US Dollar, marking the fourth consecutive week of losses, driven by a drop in copper prices, which have fallen for eight consecutive weeks, the longest streak since 2019. Colombia's bonds led the decline in regional local currency bonds, with its benchmark 10-year local bond rising +25bps amidst continued concerns over domestic policies. Local equities were mixed, with Argentina's MERVAL index rising +3.4%.

China

The PBOC kept a policy loan rate—the one-year medium-term lending facility (MLF)—unchanged at 2%, following a previous rate cut in September. Market observers have been expecting the use of the MLF to be gradually scaled back given reforms to the PBOC's monetary policy framework which seeks to influence market borrowing costs more effectively. As a part of this overhaul, the PBOC is using the interest rate on seven-day reverse repurchase agreements as the key anchor while downplaying the role of MLF. In the offshore market,

PBOC's 3-Month Bill Sale Prices at Highest Rate in 15 Months
Coupon rate, 3m / Coupon rate, 12m
Source: Bloomberg   Bloomberg

offshore renminbi funding costs rose amid tightened liquidity conditions. The PBOC sold RMB 30 bn of 3-month bills in Hong Kong SAR last week at 3.2%, the highest rate since August 2023. Market observers note that the rate reflects a recent liquidity crunch offshore, as more Chinese banks sought to borrow in the renminbi. Analysts noted banks have taken a cautious stance with their renminbi funding amid elevated uncertainty regarding China-US trade relations under the incoming US administration; the bill's 3-month tenor thus allows borrowers to cover the period including Trump's inauguration and the potential for fresh tariff hikes against China.

Romania

Romania's local currency yields increase while equity market weakens following surprise partial result of first-round of the presidential election. According to partial results (with 99.95% counted), far-right candidate Georgescu is the winner of the first round of the presidential election. Contacts note that the partial results were significantly different from opinion polls taken ahead of the election and also the exit polls that were conducted once voting ended yesterday. The second round of the presidential elections are due on December 8. This morning the yield on Romania's 10y local currency domestic bonds increased by roughly 25bps to around 7.40%, underperforming CEE peers, with the premium over equivalent tenor German securities increasing to levels last seen in March 2023. Bloomberg also reports that Romania's dollar bonds were the worst performers among EM-peers this morning. On the equity front, Romania's BET stock index was also underperforming CEE peers this morning, and was about 1.7% weaker by mid-morning.

EMEA: Local Currency 10-yr yields (%)

Source: Bloomberg and IMF calculations

EMEA: Equity indices, 1 Jan 2024 = 100

Source: Bloomberg and IMF calculations
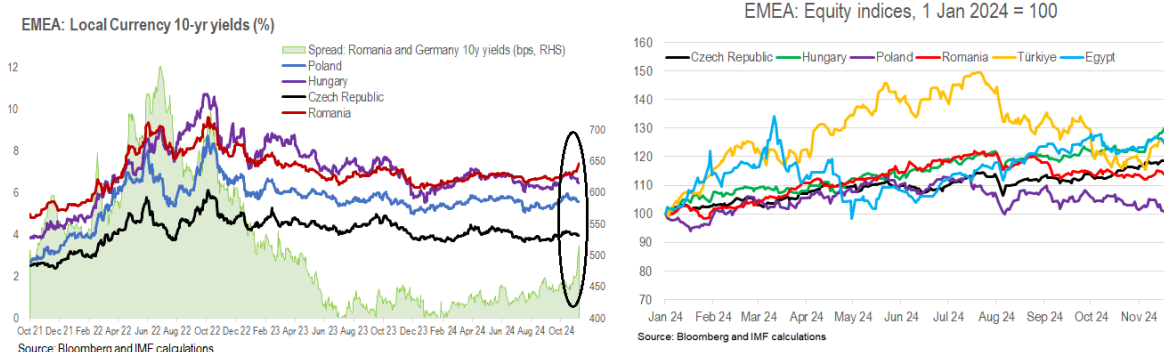
Nigeria

The central bank of Nigeria is expected to raise rates by 50bps in its policy meeting tomorrow amid stubbornly high inflation. Headline inflation increased to 33.9%y/y in October. Bloomberg consensus expect the central bank to raise its policy rate to 27.75% tomorrow, after a surprise 50bps hike at the previous MPC meeting in September together with further liquidity tightening. Goldman Sachs analysts see the main policy instruments of the central bank as the cash reserve requirement and the central bank open market operations bill issuance and note that a weak monetary policy transmission mechanism and also elevated inflation expectations has led to real rates largely remaining in negative territory. While the USD/NGN fix has stabilized somewhat relative to February, the Nigerian naira has weakened by roughly 2% since the start of August, and Goldman Sachs analysts argue that the country has yet to successfully restore and stabilize confidence in the Naira. In terms of issuance, Nigeria is expected to issue a $1.7bn Eurobond and a $500m Sukuk bond before the end of this year.

Nigeria: Policy rate, Inflation and Exchange rate

Source: Bloomberg and IMF calculations
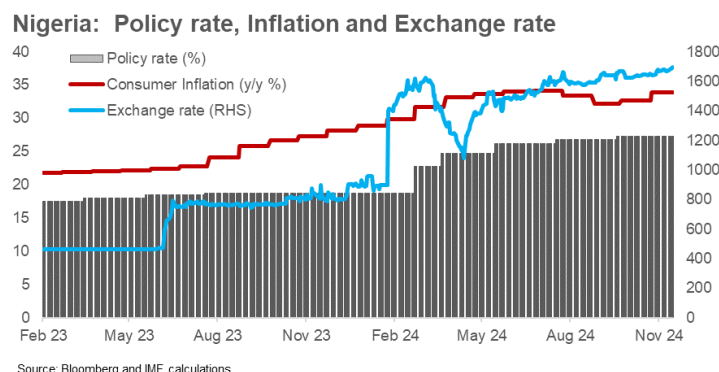
Emerging Market Fund Flows

EM fund outflows increased amidst a strengthened US Dollar environment. Last week, outflows from both EM bond (-$2.5 bn, prior week -$1.4 bn) and equities (-$6.6 bn, prior week -$4.9 bn) funds accelerated. Bond outflows were seen in both hard currency funds (-$1.5 bn) and local currency funds (-$1.1 bn). The weekly outflows from EM equity funds marked the second consecutive week of record-high outflows since March 2020 with outflows mostly driven by ETFs at -$4.2 bn. Regionally, outflows were led by Asia ex-Japan (-$5.6 bn), while EMEA and LATAM faced marginal outflows of -$75mn and -$59mn, respectively. Cumulative YTD flows currently stand at -$21.9bn and -$19.5bn for bonds and equities, respectively, with total 2024 outflows on track to become the third largest annual outflows in over a decade (after 2022 and 2015).

Weekly cross-asset flows

USD billion

Asset	8w flows (8w ago → current)	This wk	YTD
EM Bonds and Equities		-9.1	-41.5
EM Bonds		-2.5	-21.9
Hard Ccy		-1.5	-12.8
Local Ccy^		-1.1	-9.1
o.w. EM ex-China		-1.1	-9.8
o.w. China		0.0	-1.7
EM Equities		-6.6	-19.5
US HG		8.6	346.8
US HY		0.8	28.2
Global Equities		4.6	223.4
EM Bond and Equity ETFs		-5.1	23.0
EM Bond ETFs		-0.9	-3.8
EM Equity ETFs		-4.2	26.8
Non-resident EM flows*		-3.1	-15.9

EM bond and equity fund flows

USD billion
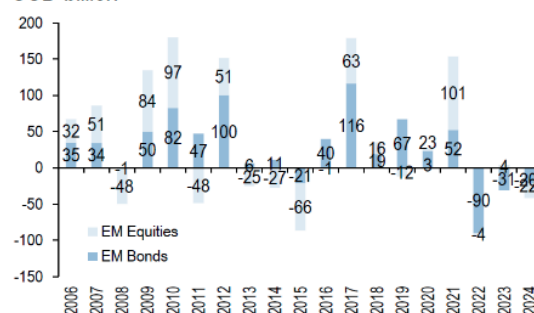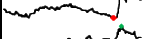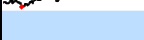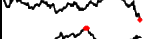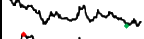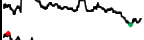
*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. *Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.*

Global Financial Indicators

11/25/24 12:11 PM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
United States		5,969	0.3	1.7	2.8	30.9	25
Europe		4,798	0.2	0.2	-2.9	9.8	6
Japan		38,780	1.3	1.5	2.3	15.3	16
China		3,848	-0.5	-2.6	-2.7	8.8	12
Asia Ex Japan		74	-0.2	0.8	-4.1	12.6	11
Emerging Markets		43	0.0	0.8	-4.1	9.5	8
Interest Rates			basis points				
US 10y Yield		4.4	-3	-5	13	-10	49
Germany 10y Yield		2.3	2	-12	-3	-39	23
Japan 10y Yield		1.1	-1	-1	12	30	46
UK 10y Yield		4.4	0	-8	15	10	85
Credit Spreads			basis points				
US Investment Grade		119	0	-1	-3	-24	-14
US High Yield		304	0	-10	-34	-117	-81
Exchange Rates			%				
USD/Majors		107.0	-0.5	0.7	2.7	3.5	6
EUR/USD		1.0	0.6	-1.1	-2.9	-4.3	-5
USD/JPY		154.5	-0.2	-0.1	1.4	3.9	10
EM/USD		43.9	0.3	-0.9	-2.3	-8.5	-9
Commodities			%				
Brent Crude Oil ($/barrel)		75.2	0.0	2.5	-0.6	-3.1	1
Industrials Metals (index)		145.4	0.8	1.1	-3.2	4.9	2
Agriculture (index)		56.5	0.2	-0.5	1.3	-12.7	-10
Implied Volatility			%				
VIX Index (%, change in pp)		15.0	-0.2	-0.5	-5.3	2.6	2.6
Global FX Volatility		8.8	0.1	0.2	-0.1	1.5	0.7
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		88	0	3	-1	-32	-16
Italy		127	1	8	5	-48	-40
Portugal		49	1	5	5	-17	-14
Spain		74	1	4	4	-25	-23

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

Emerging Market Financial Indicators

	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		3,848	-0.5	-2.6	-2.7	8.8	12.2		101	3	-11	-62	-57
Indonesia		7,314	1.6	2.5	-4.9	4.3	0.6		93	4	2	-28	-3
India		80,110	1.3	3.3	0.9	21.4	10.9		78	1	-15	-45	-38
Philippines		6,850	1.0	1.3	-6.3	9.3	6.2		82	4	3	-18	2
Thailand		1,443	-0.2	-0.7	-1.4	3.3	1.9		0	0	0	0	0
Malaysia		1,597	0.5	-0.4	-1.3	9.9	9.8		66	5	-5	-22	-19
Argentina		2,211,988	3.4	6.0	18.1	141.1	137.9		749	-20	-355	-1370	-1164
Brazil		129,126	1.7	1.1	-0.6	2.9	-3.8		201	-14	-8	-19	-14
Chile		6,564	0.0	0.3	-2.8	13.6	5.9		114	2	3	-20	-11
Colombia		1,392	0.3	2.2	4.3	22.6	16.5		315	-11	3	-1	44
Mexico		50,430	0.5	-0.2	-2.6	-4.7	-12.1		298	0	-2	-57	-36
Peru		30,269	-0.9	-0.9	-2.2	36.5	16.6		139	-2	2	-14	-5
Hungary		79,640	0.1	0.5	7.2	42.0	31.4		152	5	8	-29	3
Poland		80,001	0.6	1.0	-0.9	7.4	2.0		111	3	9	2	14
Romania		16,873	-1.5	-3.2	-3.4	14.9	9.8		210	6	25	1	9
South Africa		85,413	-0.2	1.2	-1.8	12.8	11.1		277	-7	0	-77	-31
Türkiye		9,640	0.9	2.6	8.2	21.1	29.0		253	1	-23	-104	-61
EM total		43	0.2	0.8	-4.1	9.5	7.6		366	-5	-24	-11	20

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

Last updated: 11/25/2024 12:32 PM	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	-0.2	-1.7	-1.3	-2.0		1.8	-2	-6	-16	-90	-69
Indonesia		15870	0.0	-0.1	-1.4	-2.4	-3.0		6.9	-1	0	16	25	43
India		84	0.2	0.1	-0.2	-1.1	-1.3		7.2	-2	-8	6	-36	1
Philippines		59	-0.1	-0.5	-1.1	-6.1	-6.1		5.0	2	0	10	-96	-67
Thailand		35	-0.2	0.4	-2.5	1.3	-1.5		2.3	-1	-3	-9	-73	-36
Malaysia		4.45	0.4	0.6	-2.4	5.1	3.2		3.8	0	-6	-6	-5	7
Argentina		1004	0.0	-0.6	-2.0	-64.5	-19.5		28.4	-17	6	-1027	-7732	-5800
Brazil		5.79	0.2	-0.7	-1.5	-15.4	-16.2		12.8	6	3	13	171	240
Chile		982	0.4	-0.9	-3.4	-11.2	-10.5		5.2	4	-11	7	-1	31
Colombia		4416	-0.5	0.3	-3.4	-7.8	-12.7		8.2	19	-14	-22	8	60
Mexico		20.37	0.3	-0.8	-1.9	-15.7	-16.7		9.3	8	-1	-23	33	88
Peru		3.8	0.1	0.4	-1.0	-1.3	-2.2		6.7	-1	-2	5	-49	0
Uruguay		43	0.0	0.7	-2.5	-7.9	-8.8		9.4	-2	1	-20	-10	-8
Hungary		392	0.9	-2.1	-4.4	-11.5	-11.3		6.3	-8	-18	-43	-56	56
Poland		4.13	0.8	-1.4	-2.5	-3.9	-4.7		4.8	3	-5	-26	-22	28
Romania		4.7	0.6	-1.1	-3.0	-4.4	-5.1		7.0	2	16	38	17	81
Russia		104.0	0.4	-3.9	-6.5	-14.3	-13.9							
South Africa		18.1	0.2	-0.6	-2.2	3.2	1.6		8.6	-3	-18	-31	-76	-55
Türkiye		34.59	-0.1	-0.2	-0.9	-16.4	-14.6		29.5	-10	-76	-82	-11	271
US (DXY; 5y UST)		107	-0.5	0.7	2.7	3.5	5.6		4.27	-2	-1	21	-22	42