GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, NOVEMBER 5, 2024

LEAD EDITOR: JOHANNES S. KRAMER

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- **Overnight euro currency volatility spikes ahead of US presidential election** (link)
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Markets Trade with Low Volumes Awaiting the US Election Outcome

Treasury yields retraced yesterday's rally, bear steepening overnight on lighter trading volumes. Volatility remains high with market participants feeling increasingly less convinced on a clear outcome with latest polls released yesterday casting more doubts on Trump trades that the market has favored to benefit from a clear Republican sweep with lighter positioning going into the election day. Since Monday morning, Treasury yields reversed course on tepid demand from pension funds, insurance companies, sovereign wealth funds, and mutual funds which manifested in weak investor takedown in the 3-year nominal coupon auctions where primary dealers filled the void, taking down a higher than usual issuance share. Mixed data is coming from Europe. A downside surprise in France industrial production did little to deter the pass-through of higher Treasury yields into European Government Bond markets. However, an upside surprise in the final release of service PMI data in the United Kingdom has prompted money markets to price in a shallower Bank of England easing cycle, putting upward pressure on short-term Gilt yields. In Asia, a strong Caixin PMI manufacturing report lifted the stock market sentiment. In addition, Chinese media reports are feeding expectation of new fiscal stimulus. The Australian dollar is trading stable after the central bank, as expected, left the policy rate and interest rate path unchanged.

Key Global Financial Indicators

Last updated: 11/5/24 8:25 AM	Level: Last 12m	Level: Latest	Change from Market Close: 1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5713	-0.3	-2	-1	31	20
Eurostoxx 50		4856	0.1	-2	-2	16	7
Nikkei 225		38475	1.1	0	0	18	15
MSCI EM		45	0.6	-1	-5	16	11
Yields and Spreads					bps		
US 10y Yield		4.33	4.5	8	36	-24	45
Germany 10y Yield		2.43	3.8	10	22	-21	41
EMBIG Sovereign Spread		340	7	3	-11	-84	-44
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.9	0.3	0	-2	-6	-7
Dollar index, (+) = $ appreciation		103.8	-0.1	-1	1	-1	2
Brent Crude Oil ($/barrel)		75.5	0.6	6	-3	-11	-2
VIX Index (%, change in pp)		22.0	0.0	3	3	7	10

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

Mature Markets

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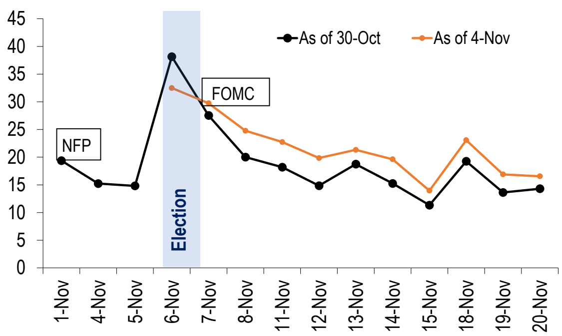
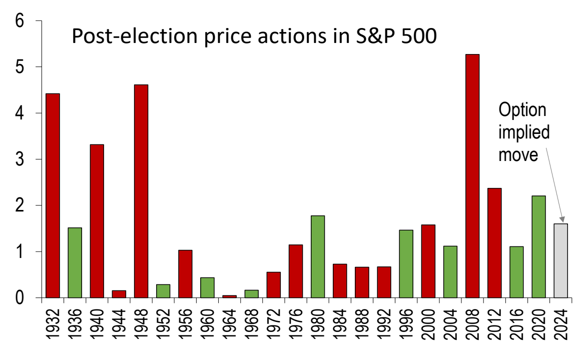
United States

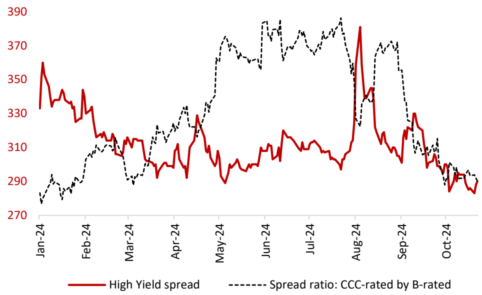
Yesterday's market reaction showed that investors started to unwind "Trump trades." A reassessment of Harris' chances winning the presidential election with anticipation of increased corporate tax rates dragged on the S&P 500 (-0.3%) while market participants started to price out reflationary concerns as seen in a fall in 10-year Treasury yields that rallied (-9bps) to 4.28% on lower breakeven inflation. This was primarily driven on rising anticipation of a scenario of Harris winning with a split congress in yesterday morning's market reaction following the outcome of the Iowa poll on Saturday, which was seen to result in a more benign fiscal impact. However, some market contacts note the wide margin of error in that poll, noting that polling averages for Iowa still show Trump leading by 3 pp. and that overall, the outcome of the election remains a close call which chances seen unlikely that we have a clear winner by tomorrow morning. The US dollar depreciated (-0.4%).

Volatility markets anticipate post-election price action to be short-lived. Forward instantaneous implied volatility in the S&P 500 peaks tomorrow while quickly abating following the Fed meeting on (left chart) with the volatility spike declining some in recent days. Also, the magnitude of the option-implied magnitude of a move appears comparatively moderate relative to the daily magnitude of market reactions following past Fed meetings and US election outcomes (right chart), albeit the option-implied measure also contains risk premia as a confounding factor. More broadly, Deutsche Bank analysts also point out that similar observations hold true in inflation forward pricing. Albeit a Trump victory appears consistent with a rapid implementation of tariffs through executive orders utilizing specific legal authorities granted to him under U.S. trade laws, the inflation term structure in near-term forward breakeven markets has remained comparatively flat so far. Some market contacts see this consistent with the uncertainty around the magnitude of tariffs and their stickiness on China and Europe, which deters their ability to hedge that scenario.



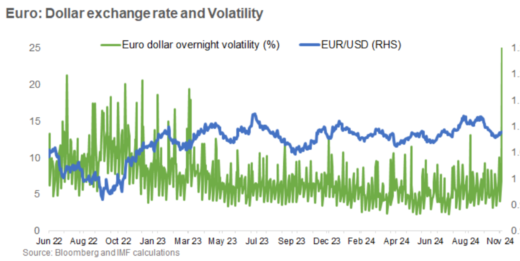


A benign macroeconomic backdrop continues to compress high-yield credit spreads. Abstracting from transitory effects such as the impact of hurricanes and the Boeing strike, data outturns in the US remain robust. This is evident in upward momentum of economic activity such as the latest releases of the Dallas Fed manufacturing activity index, consumer confidence data, ADP payrolls and consumer spending data, which all portray a business cycle that continues to be strong, creating a favorable macroeconomic backdrop for credit markets. Hence, high yield credit spreads continue to compress with the lowest-rated issuers experiencing the fastest compression in financing costs (left chart). However, some market contacts warrant caution of complacency. First, albeit defaults are mostly distressed exchanges rather than liquidations, the number of defaults appears elevated, which could eventually prompt credit spreads to rise. Second, high-yield bonds may be considered expensive as various measures suggest that the credit risk-premium is shrinking. One of such measures is the ratio of credit spreads divided by the Debt-to-EBITDA ratio that continues falling (right chart). Based on that observation, Bloomberg analysts suggest that credit investors are remunerated less per unit of leverage.



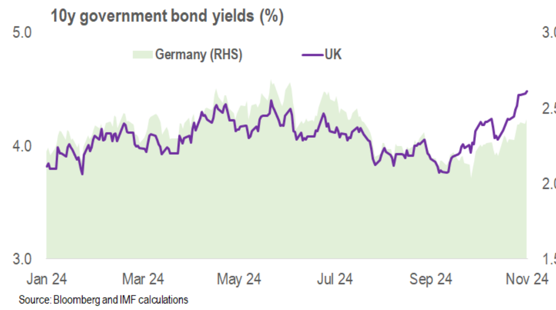
Euro area

European equities remained flat ahead of today's US election. This morning Stoxx 600 index remained little changed, reversing earlier gains. According to Bloomberg, trading volumes remain tepid, corresponding to two-thirds of the 20-day average. Benchmark yields slightly increased with 10-year bunds rising (+3bps) toward 2.43% while 2-year bunds were little changed, yielding 2.27%.



Overnight euro currency volatility spikes ahead of US presidential election. Bloomberg data shows that overnight volatility in the euro has risen to the highest level since March 2020, registering the largest daily increase since the global financial crisis. Given concerns that a Trump victory would result in universal tariffs, Deutsche Bank analysts specifically point at Germany's open economy that could—on top of the lingering dismal economic environment on its own—be affected by an imposition of universal tariffs, making the Euro primed for potentially large foreign currency moves. Furthermore, ING analysts note that the options market is trading one-week implied volatility in the EUR/USD at more than twice the realized volatility, consistent with those concerns.

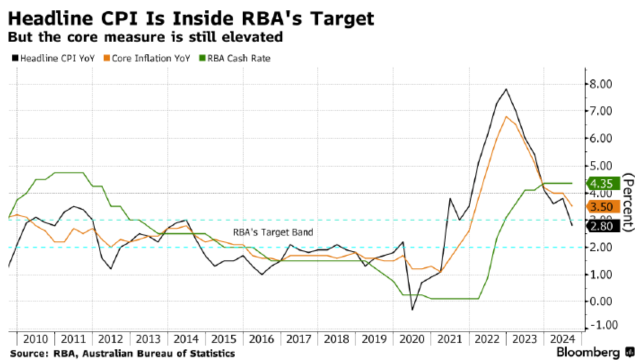
United Kingdom



Pound strengthens against dollar with gilt yields bear-flattening. This morning, the final release of the S&P services PMI for October printed at 52.0 (exp. 51.8 from 52.4), prompting money markets to price a shallower Bank of England's easing cycle with a cumulative amount of -83bps of rate cuts by September next year (down from -94bps yesterday). This has put upward pressure on shorter-term rates with 2-year Gilt yields rising (+6bps) to 4.48% while 10-year Gilt yields rose less (+4bps) to 4.5%. While some analysts have suggested that increased gilt supply could weigh further on gilt yields, UBS analysts perceive that the market reaction is mainly a reflection that "demand from pension funds and banks has been lost and must be replaced" and that "gilts must deepen foreign demand and bring back the banks", consistent with the theme of shifts in the buyer base of sovereign bonds towards more price sensitive ones contemplated in the latest Global Financial Stability Report. This morning, the sterling firmed (+0.2%) against a broadly weaker dollar, trading at $1.2985/£.

Australia

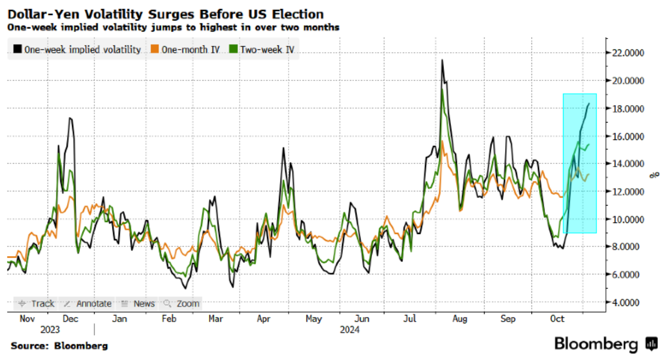
At its meeting yesterday, the Reserve Bank of Australia (RBA) held its policy rate unchanged. The central bank validated expectations keeping the policy rate at 4.35%, a level it maintained since November last year. Despite third quarter headline inflation slowing falling back to the RBA's target band of 2–3%, the central bank attributes part of the decline to temporary factors related to cost-of-living relief, while staying vigilant against the sticky underlying inflation, which “remains too high” at 3.5% in Q3. The RBA also views aggregate demand as remaining above the economy’s supply capacity, with a still tight labor market, expecting underlying inflation to approach the upper target band by mid-to-late 2025 and the midpoint by late 2026. Hence, the policy stance would need to be sufficiently restrictive until the Board gains rising conviction that inflation is moving sustainably towards the target range, which remains policymaker’s highest priority. Hence, overnight forward markets anticipate a first rate cut in May 2025. The Australian dollar appreciated (+0.5%) while equities declined (-0.4%).



Japan

Stocks rebounded from a significant drop in the previous session. Positive earnings reports of major companies—e.g., Nomura Holdings Inc., Sanrio Co., and Nippon Sanso Holdings—lifted risk sentiment. The Nikkei 225 (+1.1%) and the Topix Index (+0.8%) rose, led by electronics manufacturers and automakers.

The FX market exhibits heightened uncertainty, with the one-week implied volatility of USD/JPY having surged to the highest level since early August. Analysts anticipate various scenarios—a Trump victory could raise US yields on expectations of inflation-boosting tariffs, thereby weakening the yen, while a win for Harris might strengthen the yen while still raising concerns about wider deficits. Overall, the yen depreciated slightly (-0.12%).



Starting today, the Tokyo Stock Exchange has extended its trading hours by 30 minutes. This extension aims at partially addressing the all-day trading halt due to system glitch in October 2020, reflecting the first change in seventy years. The modification aims to attract foreign investors, facilitate timely market reactions to earnings announcements, and encourage trading activity. The change also introduces a new "closing auction" system in the last five minutes of trading to improve the transparency of the closing price formation.

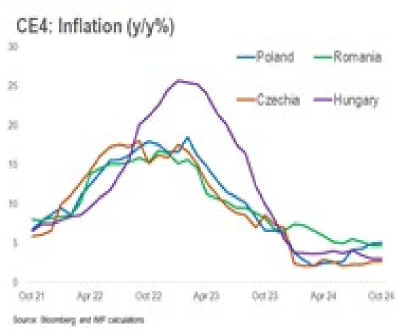
Emerging Markets back to top

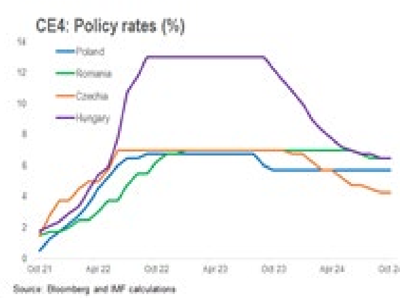
EMEA currencies strengthened to the dollar while equity markets lacked a clear pattern. Consistent with the observations for the euro outlined above, overnight volatility in EM currencies broadly jumped ahead of today's US presidential election day. CEE currencies were mostly weaker against the euro, with the Hungarian forint reaching the lowest level in 23 months (-0.5% to 409.95/€), and the Polish zloty weakening (-0.2% to 4.37/€) ahead of the central bank's policy announcement tomorrow, where rates are expected to remain unchanged at 5.75%. In terms of primary market activity among CEEs, Czechia is reportedly planning to sell euro-denominated bonds on the domestic market later this month, according to a Bloomberg report. In Africa, the South African rand gained (+0.4%) to 17.45/$.

While Asian equity and currency markets mostly gained. An upbeat Caixin services PMI along with growing anticipation of further fiscal stimulus created a favorable backdrop for EM Asia equities (+0.9%) with Chinese stocks outperforming (CSI 300: +2.5%) and Hong Kong SAR (+2.1%). More specifically, the Caixin services PMI exceeded expectations by a notable margin at 52.0 (exp. 50.5 from 50.3), adding to early signals of consumer demand stabilization after recent stimulus measures rolled out to revive growth. Today, RMB depreciated (-0.2%). As China-sensitive currencies, the Malaysian ringgit (+0.6%) and Thai baht (+0.4%) benefitted most from the positive impetus. By contrast, the Korean won underperformed (-0.2%) on domestic inflation in October inflation printed at the lowest since early 2021 at 1.3% y/y (exp. 1.4% from 1.6%), potentially providing room for the Bank of Korea to ease monetary policy.

Yesterday, Latin American currencies and stock markets broadly gained. The Brazilian real (+1.5%) led the regional advance as investors wait for the government to announce its spending cut plan. Equity markets in Latin America broadly gained except for Colombia's, which declined (-0.4%) with weakness in energy and consumer discretionary stocks. Chile's economic activity experienced the largest monthly drop since July 2022 printing at -0.8% m/m (exp. 0% from -0.2%), prompting expectations of more rate cuts.

Czechia

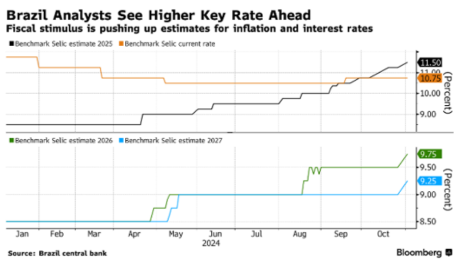


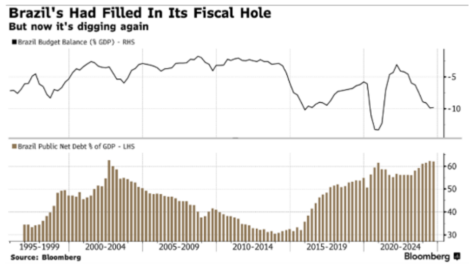


Expectation is that the central bank of Czechia (CNB) will continue cutting rates at its meeting on Thursday. Median consensus expectations based on a sample of economists surveyed by Bloomberg are for a -25bps cut to 4.0% with market contacts being attentive to the updated central bank's economic projections and statements indicating the possibility of a rate hold further along in the easing cycle. While Q3 GDP growth has surprised on the downside, headline inflation has surprised on the upside recently, increasing to 2.6%y/y in September. Recent data releases also showed manufacturing PMI improving in October, albeit remaining in contractionary territory. The CNB has cut its policy rate by a cumulative -275bps since the start of its easing cycle in December 2023, with its policy rate being the lowest among CEE peers. JPMorgan analysts caution that the US election today might add uncertainty to the policy decision, arguing that market volatility and a potential EM risk-off sentiment could weigh on CEE currencies and result in the central bank postponing the rate cut. this morning, The Czech koruna remained flat to the euro, now -0.5% weaker than end-September and -2.5% weaker YTD.

Brazil

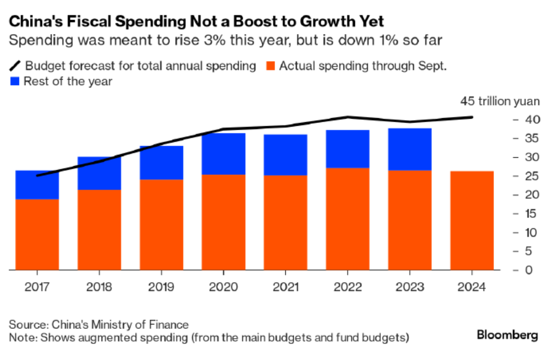
The Brazilian real appreciated on expectation that the government will announce spending cuts. In recent weeks, worries about President Lula's rising fiscal spending prompted market contacts to bet on a weaker real and larger interest rate hikes. Bloomberg's latest weekly central bank survey among economists exemplifies these worries with median consensus expectations showing rising policy rates for year-end 2025, 2026, and 2027, which were all raised by 25bps on anticipation that the fiscal expansion will prove inflationary. Yesterday, the Brazilian real appreciated (+1.5%) on Reuters news that sparked rumors of an impending announcement of fiscal measures to support the country's fiscal framework later this week.





China

Chinese equities posted a major gain as lawmakers review a proposal to raise local government debt ceilings to replace hidden debt. This measure reflects one among several key actions expected to be announced at the National People's Congress this week. Last month, Finance Minister Lan Fo'an floated the idea of raising local government debt ceilings, pledging that China is preparing to launch its most significant effort in years to tackle the risks associated with local government debt. Although uncertainties remain around the size and timing of the debt swap, Bloomberg analysts expect that would at least release funds for local governments to address various needs, such as account payables. Absent mention of additional special sovereign bond issuance to address the fiscal gap or support demand measures, Societe Generale analysts expect further fiscal support likely to be indicated in forward guidance rather than immediate action.



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Global Financial Indicators

11/5/24 8:25 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5,720	-0.3	-1.9	-0.5	31.2	20
Europe		4,856	0.1	-1.9	-2.0	16.3	7
Japan		38,475	1.1	-0.3	-0.4	17.6	15
China		4,045	2.5	3.1	0.7	11.3	18
Asia Ex Japan		77	0.3	-1.1	-5.5	19.2	15
Emerging Markets		45	0.6	-1.3	-4.7	16.3	11
Interest Rates			basis points				
US 10y Yield		4.3	4	8	36	-24	45
Germany 10y Yield		2.4	4	10	22	-21	41
Japan 10y Yield		0.9	-1	-4	6	2	33
UK 10y Yield		4.5	5	19	38	22	97
Credit Spreads			basis points				
US Investment Grade		127	0	2	3	-31	-7
US High Yield		328	-3	-8	-7	-107	-57
Exchange Rates			%				
USD/Majors		103.8	-0.1	-0.5	1.2	-1.2	2
EUR/USD		1.1	0.1	0.7	-0.7	1.6	-1
USD/JPY		152.2	0.1	-0.7	2.7	1.4	8
EM/USD		44.9	0.3	0.2	-2.0	-5.8	-7
Commodities			%				
Brent Crude Oil ($/barrel)		75.5	0.6	6.8	-2.5	-5.6	1
Industrials Metals (index)		151.0	1.3	1.1	-3.2	8.2	6
Agriculture (index)		55.8	0.3	0.9	-3.6	-14.9	-11
Implied Volatility			%				
VIX Index (%, change in pp)		22.0	0.0	2.6	2.7	7.0	9.5
Global FX Volatility		9.2	0.0	-0.2	0.5	1.6	1.1
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		89	-1	-1	-6	-42	-15
Italy		126	-1	4	-4	-61	-41
Portugal		47	-1	6	-5	-20	-16
Spain		71	0	1	-5	-33	-26

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

Emerging Market Financial Indicators

Last updated: 11/5/2024 8:26 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		7.10	0.0	0.4	-1.2	2.3	0.0		2.0	-1	-4	-3	-71	-56
Indonesia		15735	0.1	0.2	-0.3	-1.3	-2.1		6.7	-4	-12	10	-11	27
India		84	0.0	0.0	-0.2	-1.1	-1.1		7.3	1	2	13	-30	4
Philippines		58	0.0	-0.1	-2.6	-4.1	-5.0		4.9	0	5	20	-97	-70
Thailand		34	0.3	0.5	-0.5	5.6	1.6		2.4	-2	-3	-11	-75	-28
Malaysia		4.35	0.6	0.7	-1.4	6.8	5.7		3.9	-4	-2	15	-9	16
Argentina		993	0.0	-0.5	-1.8	-64.8	-18.6		32.4	36	-480	-760	-7686	-5402
Brazil		5.78	0.0	-0.4	-5.1	-15.5	-16.0		12.8	10	13	68	121	245
Chile		954	0.1	0.1	-2.9	-7.5	-7.8		5.2	1	-8	26	-49	25
Colombia		4424	0.3	-0.8	-4.7	-10.1	-12.9		8.7	0	16	90	27	110
Mexico		20.15	-0.2	-0.4	-4.3	-12.9	-15.8		9.6	-1	10	58	30	112
Peru		3.8	0.0	-0.2	-1.1	-0.3	-1.8		6.7	0	-2		-56	7
Uruguay		42	0.2	-0.7	-0.7	-3.9	-6.5		9.4	2	18	-5	-49	-14
Hungary		375	-0.1	-0.2	-2.5	-5.7	-7.5		6.9	12	5	58	-35	110
Poland		4.00	0.1	0.3	-1.5	3.9	-1.6		5.1	3	-7	27	25	60
Romania		4.6	0.1	0.7	-0.7	1.5	-1.3		6.7	-2	3	22	3	51
Russia		97.6	1.3	-0.1	-1.6	-5.1	-8.3							
South Africa		17.5	0.4	1.2	-0.4	4.7	5.1		8.9	1	-3	16	-69	-22
Türkiye		34.35	0.0	-0.2	-0.3	-17.2	-14.0		31.1	20	88	143	89	439
US (DXY; 5y UST)		104	-0.1	-0.5	1.2	-1.2	2.4		4.20	5	12	39	-31	35

	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		4,045	2.5	3.1	0.7	11.3	17.9		105	-4	-13	-64	-53
Indonesia		7,492	0.2	-1.5	-0.1	8.9	3.0		91	0	6	-40	-5
India		79,477	0.9	-1.1	-2.7	22.3	10.0		87	-4	-12	-45	-29
Philippines		7,258	1.7	-1.2	-2.8	19.4	12.5		78	0	6	-30	-2
Thailand		1,482	1.3	2.1	2.6	4.5	4.6		0	0	0	0	0
Malaysia		1,621	0.3	0.6	-0.6	10.7	11.4		67	0	-8	-29	-18
Argentina		1,919,066	2.1	3.6	9.3	201.1	106.4		957	40	-287	-1573	-956
Brazil		130,442	1.9	-0.2	-1.0	10.4	-2.8		210	6	8	-8	-5
Chile		6,643	1.2	-1.7	2.5	18.2	7.2		112	2	5	-28	-13
Colombia		1,353	-0.4	1.0	3.8	23.1	13.2		341	24	39	42	70
Mexico		50,883	0.5	-1.8	-3.3	-0.7	-11.3		302	4	15	-50	-32
Peru		30,385	-0.3	-1.9	0.2	41.6	17.0		140	7	9	-13	-4
Hungary		74,275	0.6	0.2	1.2	29.5	22.5		154	6	9	-36	5
Poland		80,322	-0.7	-0.5	-2.1	10.8	2.4		112	7	8	1	15
Romania		17,209	0.0	-1.7	-1.4	19.0	12.0		203	9	15	17	3
South Africa		86,296	0.1	-1.2	0.0	18.4	12.2		278	-4	12	-73	-30
Türkiye		8,614	-0.6	-3.7	-5.4	11.8	15.3		263	-6	-12	-97	-51
EM total		45	0.8	-1.3	-4.7	16.3	11.3		385	6	0	-3	40

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

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