GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, NOVEMBER 6, 2024

LEAD EDITOR: JOHANNES S. KRAMER

- **US risk assets rallied overnight on expectations of Donald Trump's victory** (link)
- **Euro depreciated the most since 2016 following the election outcome** (link)
- **Sterling appears better positioned to deal with goods-tariffs than other currencies** (link)
- **Chilean markets retreat following release of hawkish central bank meeting minutes** (link)
- **Concerns about trade tensions weigh heavily on the Chinese yuan and stocks** (link)

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Stocks Surging and Treasuries Tumbling on a Trump 2.0

Risk assets rally while Treasuries and foreign currencies correct sharply on a Trump victory. Main major news outlets declared Trump winning the US presidential elections with the Republican majority in the battleground state Wisconsin seen as the decisive factor driving the outcome. At the time of writing, Republicans seem likely to take control of the Senate, and although it remains uncertain, they are currently also leading the battle for the House of Representatives. If the Republicans gain control of both houses of Congress in a clean sweep, the likelihood of large tax cuts, increased tariffs and stricter immigration policies increases—and thus also the risk of an even larger budget deficit and higher inflation. In reaction, investors are chased Trump trades with gains in the Russell 2000 and cryptocurrencies leading the way. Longer-term Treasury yields sharply corrected up with further potential to further rise in a clean sweep, which market contacts associate with a deterioration in the fiscal outlook. This contrasts with the constructive yield sentiment of yesterday's 10-year coupon auction where pension funds and insurance companies had the largest participation in over two years. Foreign currencies broadly depreciated against the dollar in anticipation of Trump moving ahead with goods-tariffs as a first order priority in the political agenda. Hence, euro and yuan markedly depreciated and export-oriented German car manufacturer stocks posted large losses. Reflective of a larger export share of services, the sterling depreciated comparatively less.

Key Global Financial Indicators

Last updated: 11/6/24 8:52 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities				%			%
S&P 500		5783	1.2	-1	1	32	21
Eurostoxx 50		4862	-0.2	0	-2	17	8
Nikkei 225		39481	2.6	1	0	22	18
MSCI EM		45	1.4	0	-3	17	13
Yields and Spreads				bps			
US 10y Yield		4.43	16.3	13	47	-21	55
Germany 10y Yield		2.40	-2.4	1	19	-34	38
EMBIG Sovereign Spread		343	4	4	-7	-80	-40
FX / Commodities / Volatility				%			
EM FX vs. USD, (+) = appreciation		44.5	-0.1	-1	-3	-7	-8
Dollar index, (+) = $ appreciation		105.3	1.8	1	3	0	4
Brent Crude Oil ($/barrel)		73.5	-2.7	1	-6	-14	-5
VIX Index (%, change in pp)		15.8	-4.7	-5	-3	1	3

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

Mature Markets

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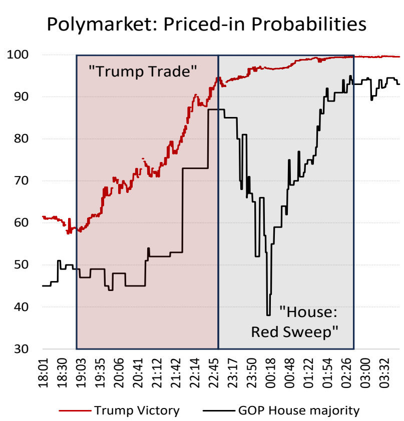
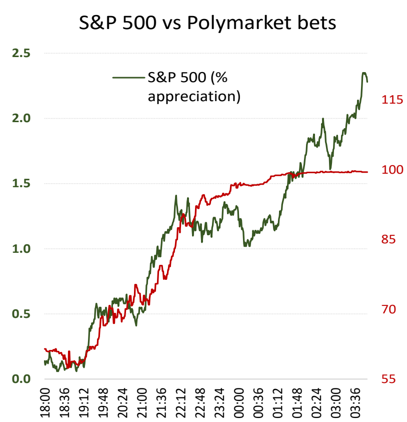
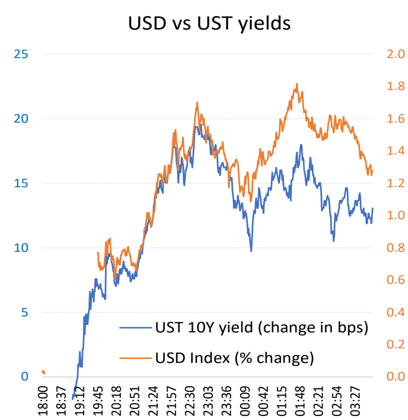
United States

Yesterday's Treasury auction revealed constructive sentiment on yields ahead of the election results. On thin trading volumes the S&P 500 rose (+1.1%), with gains in all sectors. Treasury yields initially rose on an upbeat ISM services release at 56.0 (exp. 53.8 from 54.9) that had a strong employment component only to be reversed as attractive yields garnered firm demand in an auction of 10-year coupon securities with the highest share of direct bidders—associated with real money demand from pension funds and insurers—in over two years. In the follow-through, long-term yields rallied in the afternoon while breakeven inflation slightly increased along all tenors (+2bps).

Pre-market overnight trading showed a strong overnight reaction to growing evidence of a Trump victory. The first reporting counties from the East Coast showed that Trumps' results substantially exceeded polls and expectations; it revived the so-called "Trump trade" across all asset classes and boosted market bets on Trump's victory. By 11pm, the priced-in consensus was a Trump victory with market contacts shifting focus to the Republican's chances to control the House—which could result in clean sweep (as the Republicans won the Senate)—which could imply more expansive fiscal policy and a higher likelihood of Trump's legislative reforms. Both political projections drove asset prices. Initially between 7pm and 11pm yesterday, Trump's chances as the president-elect dominated betting markets. Subsequently, after 11pm, the chances of a Red Sweep became center of the attention (left chart). US equity futures rallied (middle chart), with Energy, Financials, and small-cap stocks outperforming, while the interest-rate sensitive sectors real estate and utilities underperformed. Treasury yields rose in tandem with an appreciating dollar (right chart), led by a sell-off in longer-term yields in the evening, exemplified by 10-year yields sharply correcting (+22bps) to 4.48%. Market contacts note that the market reaction so far appears consistent with the fiscal policy of a split government whereas a clean Republican sweep could prompt a far larger jump in long-term yields with a deterioration in the fiscal outlook seen as likely. Bitcoin joined the overnight rally alongside small cap equities. Bitcoin surged (+8%) followed by Russell 2000 futures (+6%). Most commodities fell, including gold and other precious metals, industrial metals, agricultural commodities, and oil.





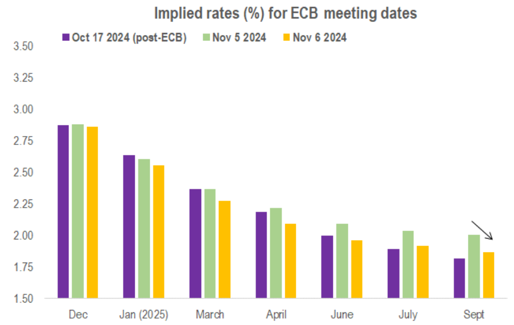


Euro area

The euro depreciated the most since 2016 as markets react to a Trump victory. The euro sharply corrected (-2.2%) to $1.0703/€ with expectation that the election results allow Trump to move ahead with goods-tariffs as a first-order priority of his political agenda. The Stoxx 600 rose (+2%) in early morning trade, but pared gains in later trading (+0.9%), whereas export-oriented German car manufacturer stocks sold-off as exemplified by BMW (-6.6%) and Volkswagen (-4.4%). Stocks of the former pared back earlier losses with disappointing quarterly earnings released today being a tailwind to tariff related concerns.

Leading indicator releases show mixed readings. The October S&P composite PMI index for Spain declined to 55.2 (exp. 56.3 from 56.3). Similar data for Italy showed the composite PMI index rising to 51.0 (exp. 50 from 49.7). The final October composite PMI data for Germany printed at 48.6 (exp. 48.4 from 47.5) and for France at 48.1 (exp. 47.3 from 48.6). The final October Eurozone composite PMI index printed at 50.0 (exp. 49.7 from 49.6). Separately, German factory orders for September rebounded, rising by +4.2% m/m (exp. +1.5% from revised -5.4%).

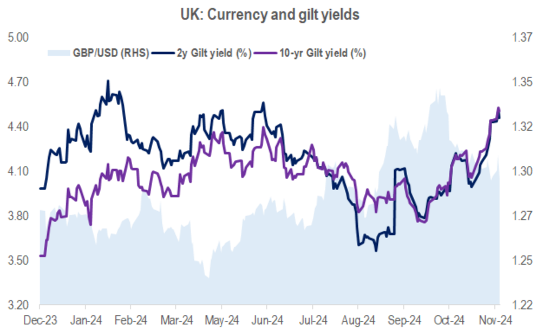
Anticipation for a deeper ECB cutting cycle rises following the US election results. Rabobank analysts note that a more protectionist US administration will pose a challenge to growth in the eurozone, which could compel the ECB to become more accommodative. While market pricing continues to only assign a 60% chance of a -50bps jumbo rate cut at the upcoming December meeting, the depth of the easing cycle extends with -129bps of cuts being priced by September 2025, down from -117bps priced on Tuesday. Reflecting this reassessment of deeper rate cut expectations, front-end bund yields have been rallying this morning with the 2-year tenor declining (-9bps) to 2.20%, while the 10Y bund yield declined less (-4bps) to 2.39%, resulting in a bull steepening of the curve.



Source: Bloomberg and IMF calculations

United Kingdom

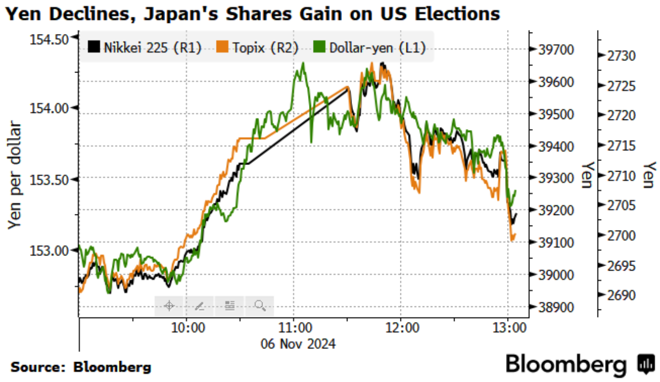
The sterling appears to be better positioned to deal with goods-tariffs than other currencies. Sterling declined (-1.3%) to $1.2892/£, less in magnitude than the euro or yuan. Following market contacts, this is consistent with services contributing two thirds of the export share to the US, which makes the pound better positioned to deal with the anticipation of goods-tariffs under the Trump administration. Gilt yields bull steepened with the 2-year yields falling (-5bps) to 4.46% and the 10-year declining less (-2bps) toward at 4.51%, with longer term yields so far being resilient to a pass-through of rising yields in longer dated Treasuries. UK equity indices were rallying, mirroring the global bid on risk assets this morning. Market pricing for a -25bps rate cut at tomorrow's Bank of England meeting remains firmly anchored. By September 2025, the cumulative amount of easing is for -88bps, only slightly up from yesterday where it was priced at -83bps. In terms of data, the October construction PMI index printed at 54.3 (55.1 exp, 57.2 prior).



Source: Bloomberg and IMF calculations

Japan

Expansionary economic policies in a new Trump administration could extend the yen's weakening. Nomura analysts expect the yen to soften towards 155/US$ in a Trump "Red sweep," likely boosting the chances of a Bank of Japan (BoJ) December hike due to yen depreciation. Given that the yen's current weakness was primarily driven by the broad-based strengthening of the US dollar as an increased likelihood of expansionary policies might compel the Fed to embark on a shallower easing cycle, Bloomberg analysts believe Japanese authorities are unlikely to intervene in the FX market, as such intervention would have limited effectiveness unless the dollar's direction changes. Following first tentative results from the US presidential elections, the Nikkei 225 gained (+2.6%) while the yen depreciated (-1.8%) to ¥154.4/$.



Japanese government bonds (JGB) correct amid sizeable selling and US rate pass-through. JGB yields in the 2-year tenor corrected, reached a level of 0.475, which was last seen in 2008. In addition to the impetus posed by rising US Treasury yields, Bloomberg analysts also note that sizable selling by investors to the BoJ during its repurchase operation which have further contributed to the rout. Today, offers in the 3- to 5-year sector exceeded the BoJ's purchase target by over four times. Additionally, minutes of the Bank of Japan September meeting suggest apprehension against the idea of introducing projection materials akin to the Fed's dot plot considering the high uncertainty surrounding the neutral rate in Japan and the central bank's economic outlook.

Emerging Markets

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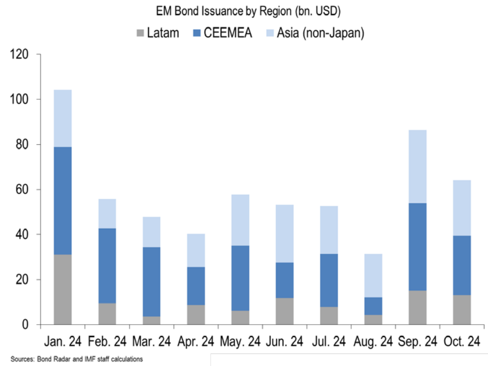
This morning, EMEA currencies depreciated while equities were mixed. On rising concerns that the US presidential election outcome could entail changes in foreign policy towards Ukraine while boosting Russia's influence in the region and increase long-term geopolitical risk, CEE currencies were mostly weaker against the euro, with the Hungarian forint underperforming (-0.3%) to 409.96/€. The Polish zloty was marginally weaker ahead of the central bank policy decision later today (-0.2%) to 4.37/€, where rates are expected to remain unchanged at 5.75%. Mirroring the slump in commodity prices, the South African rand sharply depreciated (-1.7%) towards 17.69/$ while the correction in regional stock markets was slightly lower (-1.0%). Equities in Türkiye (+2.8%) outperformed while the Turkish lira flatlined at 41.46/$.

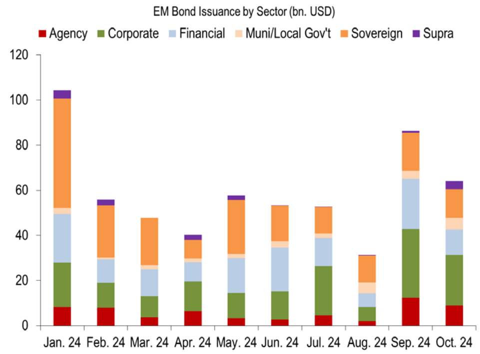
Asian currencies and stock markets depreciated. On anticipation of goods-tariffs with China exports being under scrutiny in the new US Administraton especially currencies linked to trade with China depreciated, exemplified by South Korean won (-1.2%), Thai baht (-1.5%), Malaysian ringgit (-1.4%) whiile Indian rupee (-0.2%), Vietnamese dong (-0.2%), and Philippine peso (-0.6%) were less affected by those concerns. the EM Asia aggregate stock market similarly corrected (-1.0%), driven by significant declines in Hong Kong SAR (-2.2%), Philippines (-1.3%), and Indonesia (-1.5%).

Yesterday, Latin American currencies and equities mostly gained. The Brazilian real (+0.7%) and Colombian peso (+0.6%) outperformed. Chilean assets underperformed after hawkish central bank minutes from the October meeting revealed that policymakers did not rule out scenarios of more persistent inflation.

EM Bond Issuance

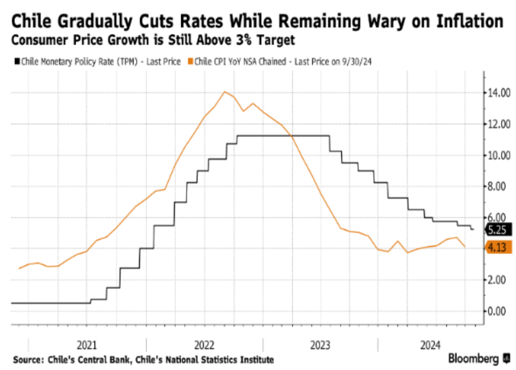
EM bond issuance in October surpassed the monthly average seen so far this year. Issuance in October totaled $64.1bn, down from the $86.4bn volume in the preceding month. Despite the drop, issuance exceeded the $59.3bn average monthly issuance this year, corresponding to the third strongest month so far in 2024. In terms of regional split, the October primary market activity was mostly in CEEMEA (41%), followed by Asia ex-Japan (39%) and Latin America (20%). In terms of issuer types, issuance was mostly by corporates (35%), followed by sovereigns (20%) and financials (18%). The monthly issuance from supranationals ($3.7bn) reflects the largest volume this year, slightly above January levels.





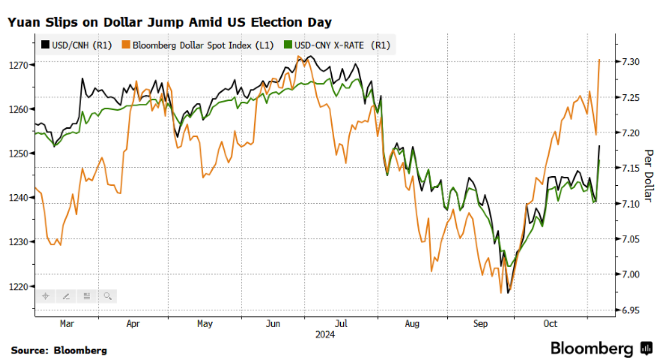
Chile

Chilean assets weaker following release of the October central bank meeting minutes. The minutes from the October meeting where the central bank cut interest rates by 25 bps to 5.25% revealed a hawkish bias among policymakers who did not rule out scenarios of more persistent inflation given rising electricity tariffs and potential geopolitical shocks which were seen to add pressure on prices. The release of the meeting minutes follows after a significant downside surprise of the economic activity indicator for September, which on Monday printed at -0.8% (exp. 0% from -0.2%), corresponding to the largest monthly contraction since July 2022. Given this, the Chilean peso (-0.2%) underperformed amid the equity benchmark IPSA Index sharply correcting (-1.6%).



China

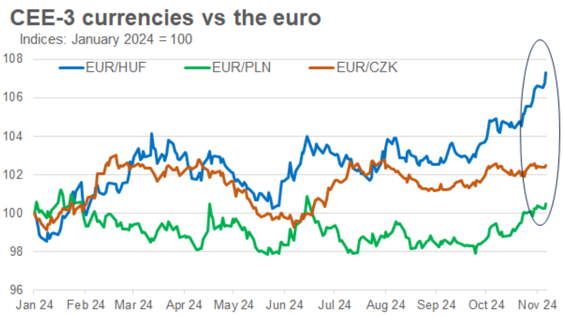
The offshore yuan posted its largest drop since October 2022. The currency declined (-1.2%) against the dollar, prompting the PBOC to set the USD/CNY fixing at 7.0993 today, stronger than the Bloomberg estimate of 7.1019 and the onshore opening rate of 7.1298 in an effort to preempt more rapid yuan depreciation. Market contacts noted significant dollar sales by state-owned banks around the 7.13 level in the onshore market, prompting speculation about the PBOC's intervention strategy. While some anticipate a depreciation of the yuan to support exports amid possible tariff hikes, others expect the central bank to maintain stability through intervention and careful management of the daily reference rate.



Chinese stocks fell both onshore and offshore, with the CSI 300 down less (-0.5%) than the HSI (-2.2%), amid concerns over the destabilizing impact of a Trump victory. However, mainland Chinese stocks have edged up in the morning, supported by expectations of increased fiscal stimulus to counter what is happening on goods-tariffs in the US by boosting domestic demand and although gains diminished as US election results trickled in. Analysts predict that Chinese stocks may decline by up to -3% after Trump's win but could stabilize if officials consider a larger fiscal package. Despite the uncertainty, retail investors remain optimistic about the upcoming stimulus measures, evidenced by a surge in new stock trading accounts and a significant pick-up in trading turnover.

Hungary

The Hungarian forint underperformed regional CEE peer currencies. The Hungarian forint depreciated by -0.8% against the euro this morning before paring some losses, while the Polish zloty and Czech koruna only depreciated -0.2% to the euro. The Hungarian forint was trading around 411.44/€, -3.5% weaker than at the start of October. Bloomberg analysts point out that forward rate agreements are pricing rate increases in Hungary. Furthermore, ING analysts anticipate that Hungary's central bank could try to support the currency via its open market operations.



Source: Bloomberg and IMF calculations

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Global Financial Indicators

11/6/24 8:52 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities				%			%
United States		5,822	1.2	0.1	1.2	33.3	22
Europe		4,862	-0.2	-0.5	-1.9	16.9	8
Japan		39,481	2.6	1.5	0.4	22.3	18
China		4,024	-0.5	3.5	0.2	11.2	17
Asia Ex Japan		78	1.6	0.8	-4.0	20.1	17
Emerging Markets		45	1.4	0.4	-3.4	17.0	13
Interest Rates				basis points			
US 10y Yield		4.4	16	13	47	-21	55
Germany 10y Yield		2.4	-2	1	19	-34	38
Japan 10y Yield		1.0	4	2	9	10	37
UK 10y Yield		4.6	2	20	42	17	101
Credit Spreads				basis points			
US Investment Grade		121	-4	-2	-2	-37	-13
US High Yield		314	-16	-12	-21	-114	-71
Exchange Rates				%			
USD/Majors		105.3	1.8	1.2	2.7	0.0	4
EUR/USD		1.1	-2.0	-1.3	-2.4	0.0	-3
USD/JPY		154.2	1.7	0.5	4.1	2.8	9
EM/USD		44.5	-0.1	-0.7	-3.0	-6.6	-8
Commodities				%			
Brent Crude Oil ($/barrel)		73.5	-2.7	1.8	-5.1	-8.9	-2
Industrials Metals (index)		145.8	-3.4	-1.6	-6.5	3.2	2
Agriculture (index)		55.2	-1.3	-0.7	-4.7	-16.4	-12
Implied Volatility				%			
VIX Index (%, change in pp)		15.8	-4.7	-4.6	-3.4	0.9	3.3
Global FX Volatility		8.6	0.0	-0.7	-0.1	0.9	0.5
EA Sovereign Spreads				10-Year spread vs. Germany (bps)			
Greece		89	1	-2	-6	-42	-15
Italy		129	4	4	-1	-62	-39
Portugal		48	2	8	-5	-23	-15
Spain		73	2	2	-3	-33	-24

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

Emerging Market Financial Indicators

Last updated: 11/6/2024 8:53 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		7.18	-1.0	-0.8	-2.2	1.3	-1.1		2.0	-2	-5	-5	-72	-57
Indonesia		15833	-0.5	-0.8	-0.9	-1.9	-2.7		6.8	3	-7	12	-8	29
India		84	-0.2	-0.2	-0.4	-1.3	-1.3		7.3	4	9	16	-26	8
Philippines		59	-0.6	-0.7	-3.2	-4.7	-5.6		5.0	3	7	22	-95	-67
Thailand		34	-1.7	-1.3	-2.1	3.9	-0.1		2.4	2	3	-9	-73	-26
Malaysia		4.40	-1.3	-0.6	-2.7	5.4	4.3		3.9	4	2	21	4	21
Argentina		993	0.0	-0.5	-1.8	-64.7	-18.6		33.1	74	-282	-687	-7613	-5329
Brazil		5.78	-0.6	-0.3	-5.1	-15.5	-16.1		12.8	6	11	58	111	236
Chile		967	-1.1	-0.5	-4.2	-8.8	-8.9		5.3	14	10	43	-32	42
Colombia		4444	-0.7	-0.6	-5.2	-10.4	-12.8		8.8	10	15	93	30	113
Mexico		20.58	-2.3	-2.1	-6.3	-14.7	-17.5		9.6	10	10	60	32	114
Peru		3.8	0.0	-0.1	-0.8	-0.3	-1.8		6.8	1	-3	########	-52	8
Uruguay		42	-0.4	-0.8	-1.3	-4.5	-7.0		9.4	1	14	-5	-49	-13
Hungary		383	-2.2	-2.0	-4.3	-7.5	-9.3		7.0	14	23	70	-22	123
Poland		4.06	-1.9	-1.2	-3.0	2.4	-3.1		5.2	13	4	38	36	71
Romania		4.6	-2.0	-1.3	-2.3	-0.1	-2.9		6.7	0	-1	22	4	51
Russia		97.9	-0.2	-0.9	-1.9	-5.4	-8.6							
South Africa		17.7	-1.8	-0.4	-1.9	3.2	3.6		9.0	9	7	25	-60	-14
Türkiye		34.25	0.2	0.1	0.0	-17.0	-13.8		30.9	-20	41	123	16	419
US (DXY; 5y UST)		105	1.8	1.2	2.7	0.1	3.9		4.27	12	11	47	-32	42

	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		4,024	-0.5	3.5	0.2	11.2	17.3		103	-6	-15	-66	-55
Indonesia		7,384	-1.4	-2.5	-1.6	7.9	1.5		92	1	7	-39	-4
India		80,378	1.1	0.5	-0.8	23.8	11.3		86	-2	-13	-46	-30
Philippines		7,165	-1.3	-1.0	-5.2	16.9	11.1		79	2	7	-29	-1
Thailand		1,467	-1.0	1.4	1.0	4.2	3.6		0	0	0	0	0
Malaysia		1,634	0.8	1.2	-0.1	11.7	12.3		65	0	-10	-31	-20
Argentina		1,931,281	0.6	4.6	9.9	203.0	107.7		931	-6	-313	-1599	-982
Brazil		129,263	0.1	-1.1	-1.9	9.1	-3.7		218	13	16	0	3
Chile		6,515	-1.6	-3.3	0.5	16.8	5.1		113	2	6	-27	-12
Colombia		1,360	0.5	1.5	4.3	23.7	13.8		345	26	43	46	74
Mexico		50,832	-0.1	-0.7	-3.4	-1.6	-11.4		302	8	15	-50	-32
Peru		30,356	-0.1	-2.1	0.1	40.7	16.9		143	8	12	-10	-1
Hungary		75,662	1.8	1.9	3.1	31.8	24.8		161	8	16	-29	12
Poland		80,946	0.8	-1.0	-1.3	11.2	3.2		116	7	12	5	19
Romania		17,261	0.1	-1.2	-1.1	18.4	12.3		209	10	21	23	9
South Africa		85,370	-1.5	-1.6	-1.1	16.5	11.0		285	2	19	-66	-23
Türkiye		8,898	3.2	-1.2	-2.3	13.1	19.1		268	-2	-7	-92	-46
EM total		45	-1.6	0.4	-3.4	17.0	12.8		387	5	2	-1	42

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

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