GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, NOVEMBER 7, 2024

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- **Markets in US surge on election results** (link)
- **Interest rates in US a key focus for markets as Treasury yields jump after election** (link)
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US equity market records tumble as markets embrace Trump victory

Yesterday saw US equity markets set new records across the board in the wake of the US election. The global equity party continued today as Europe joined the US rally and stocks in China also saw large gains on hopes that the government will introduce a support package to stimulate the economy. US equity index futures were higher again this morning, suggesting that even more equity records could be broken later in the day. US Treasury yields are holding steady after yesterday's surge, but government bond yields are up in the euro area as investors grapple with the prospect of a snap election in Germany. The dollar is weaker against most of the major currencies after yesterday's sharp appreciation. Meanwhile, the focus now turns to the FOMC which will announce its latest decision on its policy rate later today. Markets expect a 25 bps cut. The Bank of England cut its policy rate by 25 bps as expected to 4.75%, with two more 25 bps cuts expected by the end of 2025. Sweden's Riksbank cut by 50 bs to 2.75% as expected and Norway's Norges Bank stayed on hold at 4.5% in keeping with consensus forecasts.

Key Global Financial Indicators

Last updated: 11/7/24 7:34 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5929	2.5	2	4	35	24
Eurostoxx 50		4838	0.8	0	-3	16	7
Nikkei 225		39381	-0.3	0	1	22	18
MSCI EM		45	-1.2	0	-5	16	11
Yields and Spreads					bps		
US 10y Yield		4.44	0.8	15	41	-13	56
Germany 10y Yield		2.48	7.6	9	23	-18	46
EMBIG Sovereign Spread		335	-8	2	-16	-88	-49
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.9	0.4	0	-2	-6	-7
Dollar index, (+) = $ appreciation		104.8	-0.3	1	2	-1	3
Brent Crude Oil ($/barrel)		74.5	-0.6	2	-8	-9	-3
VIX Index (%, change in pp)		15.6	-0.7	-8	-7	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

US markets surged following the US election results, with the new administration expected to cut taxes and reduce regulation. Equities shot up, Treasuries sold off in a marked bear steepening and the dollar appreciated sharply, with all markets displaying significantly large moves. All the major US equity indexes set new records. For the S&P 500, it was the best post-election day in its history and its forty-eighth record close of 2024. Banks and technology stocks did especially well on expectations of looser regulation for banks and weaker oversight of mergers and other operations for technology companies. Regional banks in particular registered massive gains. The Russell 2000 index of small cap stocks also set a new record on speculation that they will benefit from higher tariffs on foreign goods. Some markets in Europe were deep in the red yesterday as worries about tariff wars gained ground. Bitcoin hit a new record as the prospect of strict regulation of crypto markets receded. Both the VIX and the MOVE interest rate risk indexes fell sharply. Contacts expect these trends to continue in the days ahead. The next focus for markets is whether the Republicans can pull off a true red wave and add to their achievements by winning the House of Representatives.

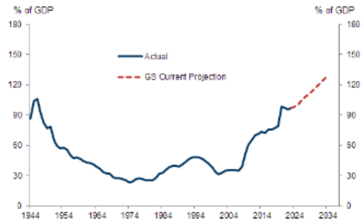
Selected One-Day Market Moves, November 6, 4pm EST (* implies new all-time high)

Source: Bloomberg

Variable	One Day Move
S&P 500	+2.5% (*)
Nasdaq	+3% (*)
S&P 500 Financials	+6.2% (*)
KRX US Regional Bank Equity Index	+13.5% (*)
Russell 2000 Small Cap Equity Index	+5.8% (*)
Euro Stoxx 50	-1.4%
10yr Treasury Yield	+16 bps
2yr Treasury Yield	+9 bps
2yr/10yr Yield Spread	+6 bps
Five-year TIPS Breakeven Yield	+14 bps
DXY Dollar Index	+1.7%
VIX Equity Volatility Index	-4.2 points (-20.6%)
MOVE Interest Rate Volatility Index	-13 points (-9.8%)
CNY	1% weaker (largest one-day move in 2 years)
Bitcoin	+9.7% (*)

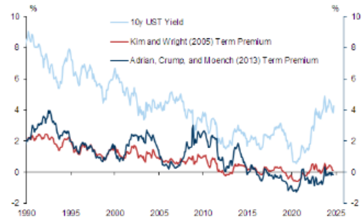
US interest rates are now a key focus for markets as the election result puts fiscal policy in the spotlight. Most analysts expect the new administration to introduce large tax cuts, and the potential for a tariff war raises questions about risks to inflation. For example, Goldman forecasted before the election that the debt to GDP ratio for the US would rise from 97% to 134% by 2024, and such estimates could be increased further as the new administration takes over. So far, US interest rates, though elevated, remain well within historical ranges. However, a combination of higher inflation and larger deficits could push US interest rates significantly higher, creating headwinds for the economy and increasing the risk of a major market shock. The 10-year yield broke above 4% on October 7 and has not looked back, hitting 4.45% this morning. The five-year Treasury Inflation Protected Securities (TIPS) breakeven yield, a key market measure of inflation expectations, has jumped from below 1.90% in early September to almost 2.50% today.

Exhibit 1 : Under our baseline assumptions, debt-to-GDP rises to 130% by 2034 from 97% currently
US government debt held by the public, % of GDP



Source: Goldman Sachs Global Investment Research

Exhibit 2 : Most measures of bond term premia are above pre-pandemic levels but modest by historical standards
10y UST yield and model measures of 10y term premia in UST

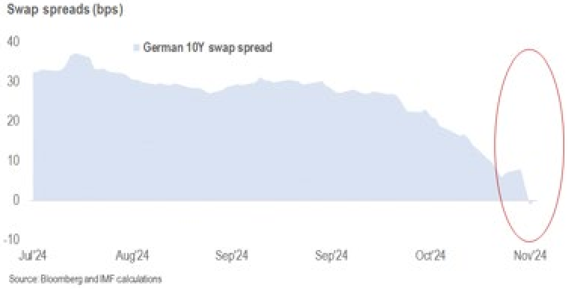


Source: Goldman Sachs Global Investment Research, Haver Analytics

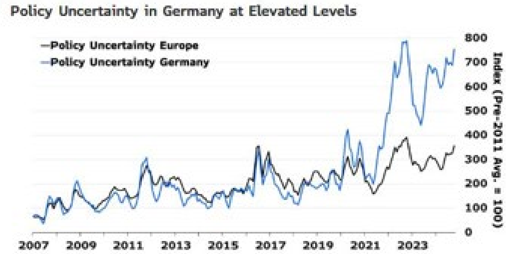
Euro Area

European equities were higher this morning partially reversing some of yesterday's losses. The Stoxx 600 index was up around 0.5% in early trading led by gains in the information technology (+1.8%) and materials (+1.7%) sectors, after having closed 1.4% lower yesterday. Other regional bourses were also in positive territory, including Germany's DAX (+1.2%), despite overnight political developments which saw the collapse of its ruling coalition. Elsewhere, the euro was a touch firmer (+0.2%) against a broadly weaker dollar to trade at 1.0753, while German government bond yields were higher across all tenors, with 10-year bund yields climbing 9bps to 2.49% and 10-year French OAT yields 9bps higher at 3.27%. Moves in Southern spreads were less pronounced with the 10-year BTP-Bund spread stable at around 133bps and the 10-year OAT-Bund spread steady at 77bps.

German 10-year swap spread turned negative on fears of potential increased bond supply amid elevated political uncertainty in Germany. Continuing a trend that has been developing over the past month and following overnight news of a collapse in the ruling German coalition, the yield on Germany's 10-year bund rose above its swap rate equivalent for the first time since 2007, according to Bloomberg data. Analysts at Rabobank note that the latest development in German swap spreads likely reflects several factors, including investors' concerns that the country may relax its debt brake and increase the amount of borrowing to support growth. In addition to concerns around increased bond supply, Rabobank noted that the ECB's policy stance—proceeding with quantitative tightening (QT) alongside easing policy rates—is "effectively unchartered territory." Mechanically, dovish ECB policy rate expectations provide a support for front-end spreads, while QT increases the supply of collateral, resulting in a narrowing in the middle of the curve, and therefore narrower swap spreads. Furthermore, the analysts highlight that the transition of Dutch pension funds towards a defined contribution system may also be weighing on longer-end swap spreads with the move transmitting along the curve.



Policy Uncertainty in Germany at Elevated Levels



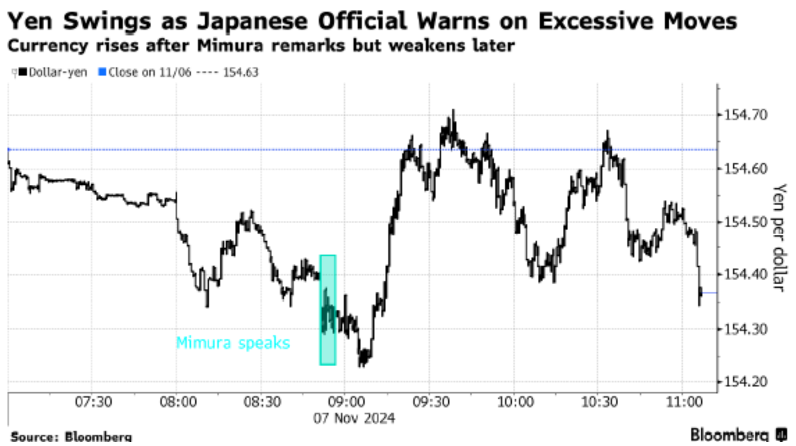
Source: www.policyuncertainty.com, Bloomberg Economics. Notes: Chart shows three-month rolling averages. The European index includes France, Germany, Italy, Spain and UK. Data as of October 2024.

United Kingdom

The pound strengthens after the BoE cut its policy rate by 25bps to 4.75% and signaled a cautious approach to further easing. The rate cut was widely anticipated. The vote split was 8–1 with external MPC member Catherine Mann voting in favor of a hold. The accompanying statement noted that while progress on disinflation has continued, the remaining domestic inflationary pressures were being resolved more slowly. Governor Bailey commented that to ensure that inflation remains close to target, interest rates cannot be cut "too quickly or by too much." Headline inflation had eased to 1.7% y/y in September but is forecast to increase to around 2.5% y/y by end-2024. Following the announcement, the pound strengthened against the dollar to trade +0.5% at 1.2937 while gilt yields added to earlier declines (2y gilt yield -3bps at 4.48% and 10y gilt yield -2bps at 4.54%).

Japan

The yen traded in a volatile session as officials sought to stem yen weakness. Expectations for a stronger US dollar, higher US inflation and, correspondingly, a more hawkish Fed under the Trump administration weighed on the yen. The yen weakened to JPY 155 per dollar before verbal interventions from the authorities halted its decline. Atsushi Mimura, Japan's chief currency official, warned against any excessive currency moves, noting that the authorities are monitoring the market with "a very high sense of urgency." The yen's outlook is also buffeted by uncertainty regarding the BOJ's policy actions. In a Bloomberg survey last month, nearly half of economists surveyed expect the BOJ to raise the benchmark rate in December, while another 32% predicted a rate hike in January. At JPY 155 per dollar, the yen approached levels where the authorities last intervened to support the currency. Meanwhile, following the US election results, the 10-year JGB yield touched 1%, its highest level since August, and the 2-year note, at 0.495%, reached its highest in 16 years.



Emerging Markets

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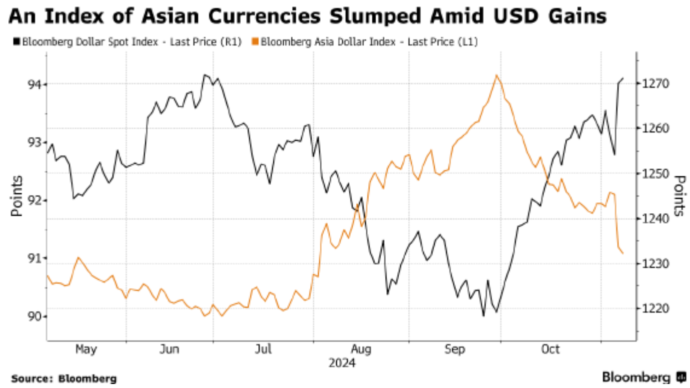
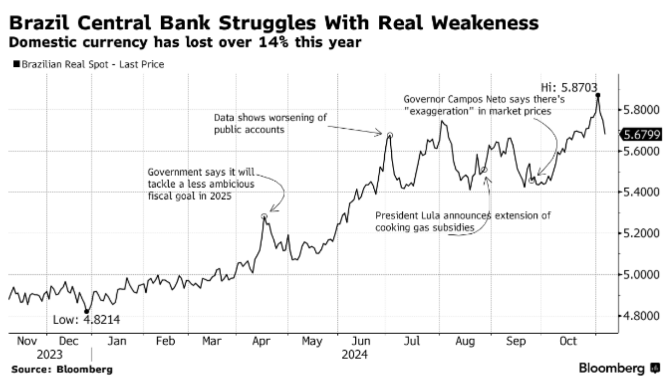
EMEA currencies were retracing some of yesterday's losses against the dollar this morning, while equities were mostly higher and local currency bond yields were mostly lower. On the policy front the central bank of Poland kept its policy rate unchanged at 5.75%, as expected. Later today the Czech National Bank is expected to cut its policy rate by 25bps to 4.0%. **Asian shares were mostly higher.** Chinese shares led overall gains (+3%) on optimism that the authorities could unveil details of its fiscal support later in the week or over the weekend. Meanwhile, Asian currencies reversed intraday losses to end the session mixed. South Korea has said it would carry out contingency plans in case of excessive market volatility; Bank Indonesia indicated that it was ready to smooth out market swings and market observers noted signs of the Reserve Bank of India supporting the rupee. **Latin American assets experienced a volatile day following the Trump victory.** Currencies saw sharp declines before reversing later in the day.



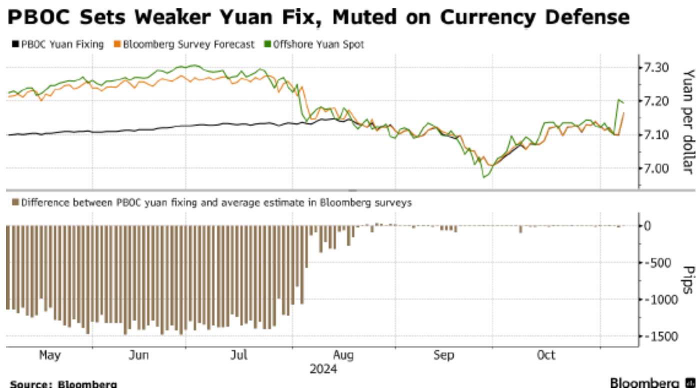
Brazil

Brazil's central bank raised its benchmark Selic rate by 50 bps to 11.25%, as expected, in a unanimous decision, doubling the prior size of 25 bps. Policymakers highlighted the importance of a "credible" fiscal policy which would contribute to anchoring inflation expectations and reducing risk premia. The real has depreciated 14% this year amidst fiscal concerns, adding to the inflationary pressures. The government is currently discussing plans to cut spending, which is expected to be announced in the next few days. The monetary policy statement additionally cites resilient economic activity, a tight labor market, increased inflation projections, and unanchored inflation expectations as factors in their decision. The pace of future adjustments was left open as policymakers emphasized their commitment to reaching their inflation target.



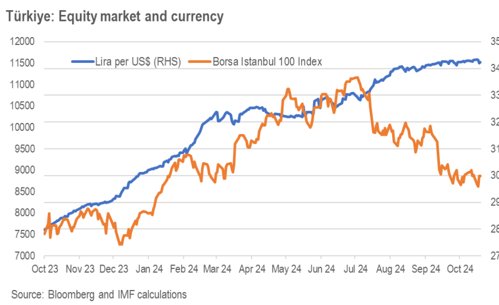
China

The reference rate for the onshore RMB fell to its weakest level in a year amid expectations for RMB weakness under a Trump administration. The PBC set the USD/CNY central rate at 7.1659 per dollar, a level unseen since late 2023 and a sharp departure from its fixing of 7.0993 yesterday. For much of 2024, the fixing, a central reference rate set by the PBC against which the RMB could fluctuate within a trading band, was below market estimates; this wedge was seen as suggesting the authorities' preference for RMB strength. The latest fixing, in contrast, was in line with market expectations, and is widely interpreted as a sign that the PBC is allowing RMB depreciation. Investors have expected RMB weakness under a Trump administration given threats of a 60% tariff on Chinese goods. The onshore RMB ended the day a touch stronger (+0.2%) but remains at its weakest level since early August at CNY 7.1586 per dollar. Meanwhile, the CSI index rose by 3.2%, its largest single-day gain in a month amid expectations that the authorities could unveil more details of its fiscal support. Strong exports figures also lifted sentiment. China's export growth surged in October (+12.7%, y/y), the fastest since July 2022. By Pinpoint Asset Management's estimate, some of the increases in exports could be attributable to efforts to front run potential tariffs in 2025.



Türkiye

Hedge funds and state-run banks reportedly supported the Turkish lira yesterday. While most emerging market currencies ended yesterday weaker against the dollar, the lira strengthened on the day (+0.3% at around 34.21). According to Bloomberg the currency was supported by state-run banks and foreign funds' purchases, with state-run banks reportedly selling more than $500mn to support the lira at a level around 34.3550 per dollar mainly during the Asian trading hours. Against this backdrop, hedge funds also reportedly entered lira positions. Türkiye's stock market also rallied yesterday (Borsa Istanbul 100 Index +2.3%). This morning the lira was marginally weaker against the dollar (-0.1% at 34.25/$). Some analysts argue that the market could see this an opportune time to close long-term carry trades and re-enter positions at higher USD/TRY levels. Market contacts are now focused on the central bank's inflation report presentation tomorrow, for any hints on the future monetary policy path.



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Global Financial Indicators

11/7/24 7:37 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,929	2.5	2.0	4.1	35.4	24
Europe		4,838	0.8	0.2	-2.6	16.5	7
Japan		39,381	-0.3	0.3	1.1	22.4	18
China		4,146	3.0	6.5	-2.6	14.8	21
Asia Ex Japan		77	-1.6	0.3	-6.9	18.5	15
Emerging Markets		45	-1.2	0.1	-5.4	15.7	11
Interest Rates					basis points		
US 10y Yield		4.4	1	15	41	-13	56
Germany 10y Yield		2.5	8	9	23	-18	46
Japan 10y Yield		1.0	3	6	8	13	40
UK 10y Yield		4.6	0	12	35	29	102
Credit Spreads					basis points		
US Investment Grade		118	-7	-5	-5	-40	-15
US High Yield		312	-18	-14	-23	-116	-73
Exchange Rates					%		
USD/Majors		104.8	-0.3	0.8	2.2	-0.7	3
EUR/USD		1.1	0.4	-1.1	-1.9	0.6	-2
USD/JPY		154.0	-0.4	1.3	3.9	2.4	9
EM/USD		44.9	0.4	0.2	-1.8	-5.7	-7
Commodities					%		
Brent Crude Oil ($/barrel)		74.5	-0.6	2.3	-7.3	-4.3	0
Industrials Metals (index)		149.6	2.2	1.4	-4.1	7.0	5
Agriculture (index)		56.8	1.1	2.1	-1.0	-13.0	-9
Implied Volatility					%		
VIX Index (%, change in pp)		15.6	-0.7	-7.6	-7.1	0.8	3.1
Global FX Volatility		8.5	0.0	-0.6	-0.2	0.9	0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		92	1	1	-5	-39	-12
Italy		133	0	7	1	-56	-35
Portugal		51	1	10	-2	-23	-12
Spain		75	0	5	-1	-31	-22

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

Emerging Market Financial Indicators

Last updated: 11/7/2024 7:38 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		7.16	0.2	-0.6	-1.9	1.7	-0.8		1.9	-2	-6	-7	-76	-59
Indonesia		15740	0.6	-0.3	-0.3	-0.7	-2.2		6.8	2	-1	6	10	31
India		84	-0.1	-0.3	-0.5	-1.3	-1.4		7.3	-3	0	14	-28	5
Philippines		59	-0.1	-1.1	-3.3	-4.4	-5.7		5.0	0	6	22	-92	-67
Thailand		34	0.3	-1.3	-2.2	3.9	0.1		2.4	-4	-2	-13	-73	-29
Malaysia		4.40	0.0	-0.6	-2.7	6.0	4.3		3.9	-3	-3	12	1	16
Argentina		993	0.0	-0.4	-1.8	-64.7	-18.6		33.1	0	-291	-687	-7613	-5329
Brazil		5.71	-0.5	1.4	-3.8	-14.5	-15.0		12.6	-6	-1	47	100	224
Chile		954	0.6	0.7	-3.0	-7.1	-7.7		5.3	-4	3	36	-33	35
Colombia		4412	0.0	0.1	-4.5	-9.8	-12.2		8.6	0	1	80	34	101
Mexico		19.93	0.8	0.6	-3.2	-12.3	-14.8		9.5	0	-9	47	28	101
Peru		3.8	-0.2	-0.4	-1.0	-0.5	-2.0		6.8	1	-2	28	-48	10
Uruguay		42	-0.1	-0.8	-0.8	-4.2	-6.6		9.5	8	22	3	-38	-6
Hungary		376	1.5	-0.4	-2.7	-6.1	-7.7		6.8	-29	-7	48	-40	101
Poland		4.02	1.0	-0.4	-2.0	3.7	-2.0		5.1	-3	-9	32	31	64
Romania		4.6	0.4	-1.1	-1.8	0.5	-2.5		6.8	7	7	29	10	58
Russia		97.2	0.1	0.2	-1.1	-5.1	-7.9							
South Africa		17.4	1.2	1.1	-0.1	5.4	5.5		8.9	-9	-4	17	-66	-22
Türkiye		34.24	-0.1	0.0	0.1	-16.8	-13.8		30.6	-37	5	58	-115	380
US (DXY; 5y UST)		105	-0.3	0.7	2.2	-0.8	3.4		4.28	0	12	41	-26	43

	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		4,146	3.0	6.5	-2.6	14.8	20.8		101	-6	-17	-65	-57
Indonesia		7,244	-1.9	-4.4	-4.1	6.5	-0.4		88	3	3	-31	-8
India		79,542	-1.0	0.2	-2.6	22.4	10.1		87	-1	-12	-43	-29
Philippines		7,014	-2.1	-3.7	-6.9	14.0	8.8		75	3	3	-21	-5
Thailand		1,470	0.2	0.3	1.2	4.1	3.8		0	0	0	0	0
Malaysia		1,623	-0.7	1.3	-0.8	11.4	11.6		65	-1	-10	-29	-20
Argentina		1,976,613	2.3	7.6	12.5	210.2	112.6		868	-92	-376	-1663	-1045
Brazil		130,341	-0.2	-0.2	-1.3	9.3	-2.9		211	10	9	-8	-4
Chile		6,580	0.8	-1.4	1.6	16.4	6.2		112	3	5	-31	-13
Colombia		1,364	0.4	0.6	4.2	24.7	14.2		336	11	34	24	65
Mexico		51,732	1.8	1.7	-0.6	1.0	-9.9		291	-1	4	-67	-43
Peru		30,366	0.0	-1.5	0.4	40.6	17.0		139	7	8	-20	-5
Hungary		76,589	0.9	3.7	3.5	33.7	26.3		157	9	12	-29	8
Poland		82,099	2.0	2.4	0.1	13.6	4.6		111	6	7	4	14
Romania		17,324	0.2	-0.7	-2.4	18.4	12.7		208	14	19	22	7
South Africa		85,899	0.7	0.6	-0.5	20.0	11.7		277	1	11	-79	-31
Türkiye		8,853	-0.1	-0.1	-2.0	12.8	18.5		255	-5	-20	-109	-59
EM total		45	1.8	0.1	-5.4	15.7	11.4		375	-2	-10	-14	30

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

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