GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, NOVEMBER 8, 2024
LEAD EDITOR: SANJAY HAZARIKA

- **FOMC has little impact as equities mark yet another record close** (link)
- **China announces new support package for local governments** (link)
- **US corporate bond market faces rising risks despite recent gains** (link)
- **EM currencies rebound after their biggest one-day selloff in 2024** (link)
- **Some think the market forecast for the terminal BOE policy rate is too hawkish** (link)
- **Peru surprises some analysts with a 25 bps cut** (link)

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Coming down to earth

Some of the post election euphoria in markets is starting to dissipate, as the dollar gave up its gains and is on track to be down for the week. After a two days of high volatility, the benchmark US Treasury yield is almost back to where it started on Tuesday morning. Stocks in Europe are selling off and China and Hong Kong SAR also saw their bourses decline. US equity index futures are flat to slightly lower. Worries about a possible tariff war between the US and China sent food commodity prices down after the election, but they have largely recovered. Meanwhile, Fed Chair Powell emphasized that the Federal Reserve will remain independent from political pressure. In other news, market participants are mulling over the details of the new support package announced by the Chinese authorities, which features a large scale debt swap to ameliorate the fiscal problems faced by local governments.

Key Global Financial Indicators

Last updated: 11/8/24 7:28 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5973	0.7	5	4	36	25
Eurostoxx 50		4821	-0.6	-1	-3	15	7
Nikkei 225		39500	0.3	1	0	21	18
MSCI EM		46	2.2	3	-1	19	14
Yields and Spreads					bps		
US 10y Yield		4.31	-1.4	-7	30	-18	43
Germany 10y Yield		2.40	-4.2	0	16	-21	38
EMBIG Sovereign Spread		329	-6	-8	-21	-101	-54
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		44.8	-0.5	0	-2	-6	-7
Dollar index, (+) = $ appreciation		104.5	0.0	0	2	-1	3
Brent Crude Oil ($/barrel)		74.9	-0.9	2	-3	-6	-3
VIX Index (%, change in pp)		15.2	0.0	-7	-6	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

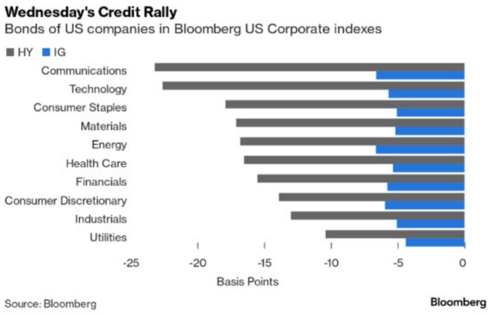
The market response to the FOMC's 25 bps rate cut and press conference was quite limited. Initially, the market seemed to view the statement as mildly hawkish, but by the end of the press conference most key market variables were pretty much back to where they started. As the Thursday session came to an end, the S&P 500 marked its forty-ninth record close of 2024 and the Nasdaq also set another new record, although the Dow declined slightly from its record close the day before. At the press conference, Fed Chair Powell emphasized that the battle against inflation was not yet over and that the Fed would remain vigilant. The rise in breakeven inflation, which is being driven by mainly non-energy components like housing, is very much on the Fed's radar. He also acknowledged the strong labor market and robust economic activity more generally.

	Level			Change	
	1:55 PM	2:25 PM	3:25 PM	1:55PM to 2:25PM	2:25PM to 3:25PM
UST 2-year (%)	4.20	4.22	4.20	1.5	-2.1
2s10s (bp)	13.0	12.9	11.8	-0.1	-1.0
TIPS 2-year (%)	1.61	1.63	1.62	2.1	-1.7
S&P 500	5967.8	5964.8	5983.1	-0.1	0.3
Bank stocks	132.0	131.6	131.8	-0.3	0.1
Regional banks	129.9	129.7	129.2	-0.2	-0.4
VIX	15.2	15.4	15.3	0.1	0.0
Dollar index	104.4	104.5	104.3	0.1	-0.2
EURUSD	1.0798	1.0785	1.0805	0.1	-0.2
USDJPY	153.0	153.2	152.8	0.1	-0.3
GBPUSD	1.2975	1.2964	1.2989	0.1	-0.2

Notes: Changes for rates and spreads in bps and for Equities and FX in %.
For FX, +ve change denotes stronger dollar

The most interesting part of the press conference was his insistence that the Fed will retain its inependance and that he would remain in his position as Fed Chair until the end of his term in 2026. When asked if he would resign if asked to by President Trump, his one word reply was "no." When asked if he could be removed under current law, he again replied "No." Former President Trump had criticized Fed Chair Powell before the election.

Rapid gains in the US corporate bond market have overshadowed the rising risks facing the sector.



Although new equity records dominated the headlines on the day after the election, the US corporate bond market also enjoyed a historic day of gains. Bonds in both the investment grade (IG) and high yield (HY) segments of the market saw significant spread tightening across all sectors. The spread on the Bloomberg IG Corporate Bond Index fell to just 77 bps and the spread on the equivalent HY index fell to just 265 bps. These are the tightest (most expensive), levels since the Global Financial Crisis. However, the rapid rise in Treasury yields creates increased interest rate risk for corporate bonds. The benchmark 10-year Treasury yield has surged by nearly 75 bps since early September, with negative mark-to-market consequences for corporate bonds if they are unhedged. IG bonds are especially vulnerable, as their lower coupons and longer maturities increase their exposure to interest rate risk. The rise of corporate bond ETFs among retail investors heightens the risk, as they lose value when rates do up sharply even when credit spreads tighten.

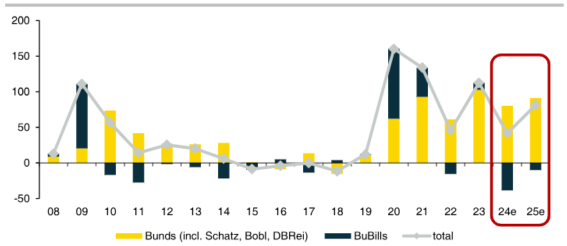
Euro Area

European equities were lower this morning reflecting a general risk-off tone in markets. The Stoxx 600 index was lower (-0.8%) in early trading led by declines in the consumer discretionary (-2.3%) and materials sectors (-1.9%). Other regional bourses were also in the red. Elsewhere, the euro was a touch weaker (-0.2%) against the dollar to trade at 1.0788. On the data front, September Italian industrial production data came in slightly ahead of expectations, printing at -0.4%m/m (-0.5% exp, 0,1% prior). Meanwhile, a sovereign rating review from Fitch is due later this afternoon for Spain which the agency rates at A-.

German government bond yields were lower across all tenors, with 10-year bund yields declining 6bps to 2.39% and two0year bund yields lower by 2bps to trade at 2.19%. 10-year German swap spreads moved back into slightly positive territory this morning, although analysts at Commerzbank noted that swap spreads will likely continue the narrowing trend that has been observed over the past few months. Increased receiving demand in interest rate swaps as ECB rate cut expectations have grown, and declining collateral scarcity as the ECB proceeds with balance sheet normalization were cited as likely driving forces for the swap spread narrowing. While some market commentary has highlighted concerns over additional fiscal supply in Germany, Commerzbank analysts see only marginal risk of higher Bund issuance for now. This morning, Southern European spreads were stable, with the 10-year BTP-Bund spread at around 130bps and 10-year OAT-Bund spread steady at 77bps.

Bund issuance not out of control yet

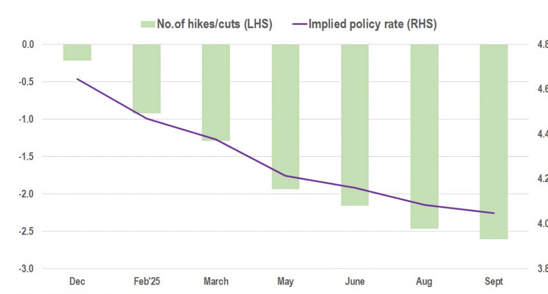
Estimated net Bund and BuBill issuance, in €bn per year



Source: DFA, Commerzbank Research

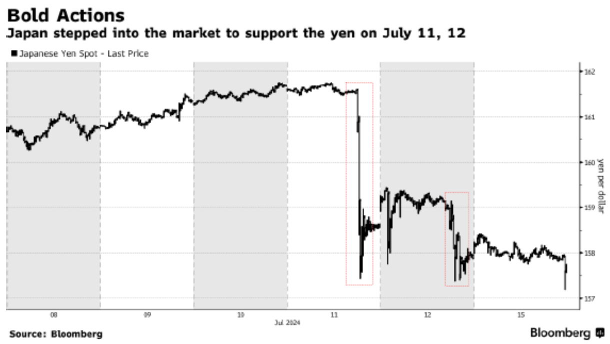
United Kingdom

Some analysts think market pricing for the BOE's terminal Bank Rate is too hawkish. Current market pricing implies a terminal rate of around 4% by end-2025 which analysts at HSBC think is too hawkish. While they note that there is significant uncertainty around where the neutral rate lies, they believe that it is "materially below 4%" as they think that the BoE will likely cut rates by more than current pricing implies. In addition, the analysts think that markets might be "pricing in too much inflation stickiness" in the UK relative to elsewhere. In their view, neutral rates are likely closer to the 3% mark than 4%. Following yesterday's MPC decision, where the MPC cut rates by 25bps to take Bank Rate to 4.75%, HSBC, in line with most analysts now expect a quarterly cadence of rate cuts from the BoE, although they expect the MPC to deliver consecutive rate cuts from next August seeing the terminal rate closer to 3%. Elsewhere on the data front, survey data released this morning showed that recruitment at UK businesses declined by the most in seven months as businesses paused hiring ahead of the budget. This morning, gilt yields were lower across the curve in line with European peers (10-year gilt yield down 3bps to 4.47%; two-year gilt yield down 3bps to 4.41%) while sterling was weaker against the dollar (-0.1% to trade at 1.2971).



Japan

The Japanese authorities confirmed market interventions last quarter to stem yen weakness. The authorities indicated that it intervened on July 11 and 12, spending ¥3.17 tr ($20.7 bn) and ¥2.37 tr, respectively, to support the yen. The yen had been trading past the ¥160 per dollar level in early July, a 38-year low, as large interest rate differential relative to the US weighed on the currency. In recent days, as the yen approached the ¥155 per dollar level, verbal interventions from the authorities have emerged to stem the yen's slide. It is ended the week at ¥152.7 per dollar. In other news, Japanese investors sold a record amount of foreign bonds ahead of the US election. **Net sales totaled** ¥4.46 tn ($29.2 bn) in the week ending November 1, the highest net sales on record going back to 2005, according to the Ministry of Finance. Foreign bond purchases totaled ¥4.45 tn thus far this year, a steep decline from ¥19 tn during the same period a year earlier, based on data from Bloomberg.



Emerging Markets

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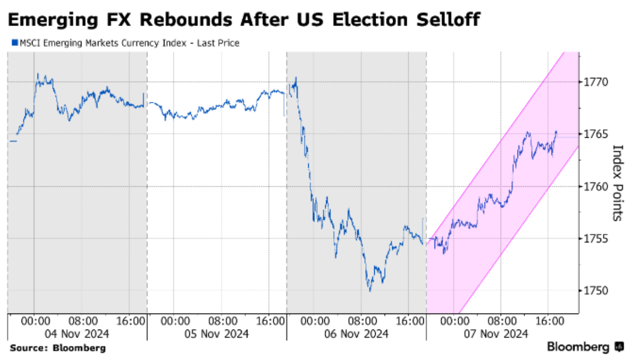
Asian equities pared advances following the release of weaker-than-expected fiscal support from the Chinese authorities. Chinese equities underperformed (-1.1%) and the RMB lagged its regional peers. The offshore CNH fell 0.4% while the onshore CNY weakened 0.3%. **Latin American currencies mostly appreciated while equities were mixed.** Currencies experienced notable gains in Colombia (+2.4%), Mexico (+1.5%), and Chile (+1.3), but depreciated in Brazil (-0.2%). Equities in Argentina (+2%) and Mexico (+1.1%) outperformed, but the rest of the region fell.

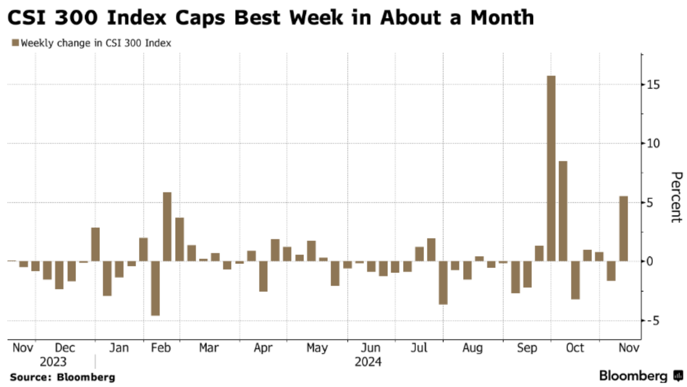
EM Currencies

EM currencies rebounded following their largest daily selloff in 2024. The US dollar experienced its best day since 2022 on Wednesday as investors digested the US presidential election results, causing the MSCI EM Currency Index to selloff. However, EM currencies rallied yesterday, led by the Colombian peso (+2.4%), Hungarian forint (+2%), and South African rand (+1.8%). Bloomberg analysts highlighted that Latin American currencies were among the biggest gainers due to their attractive carry-trade and rise in commodity prices. Since the market close Tuesday, the top five best performing EM currencies are from Latin America.



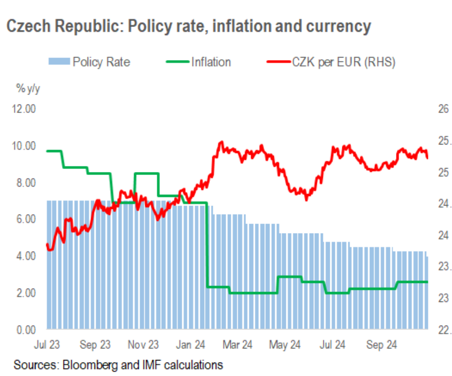
China

Asset markets in China pared gains as the authorities announced a new support package for local authorities involving a large scale debt swap. However, no outright fiscal stimulus was provided, disappointing some market participants. In a briefing following the end of the week-long National People's Congress (NPC) meeting, the NPC's Standing Committee—its most senior body—approved a RMB 10 tn ($1.4 tn) program to refinance local government debt. The fiscal support will raise local governments' debt ceiling to RMB 35.52 tn and allow local governments to issue new bonds over three years to swap off-balance-sheet debt. Finance Minister Lan estimated that the swap can save around RMB 600 bn in interest payments over five years, given outstanding debt of RMB 14.3 tn as of the end of 2023. As details of the measures were announced, the CSI 300 Index swung from a modest increase earlier in the day to a loss (-1.1%) while the onshore CNY depreciated by 0.3% to 7.164 per dollar. Commodity prices also fell and the yield on the on-the-run 10-year CGB declined to 2.08%, its lowest level since late September. That said, the CSI index remains up by 5.5% on the week, capping its best performance in about a month.



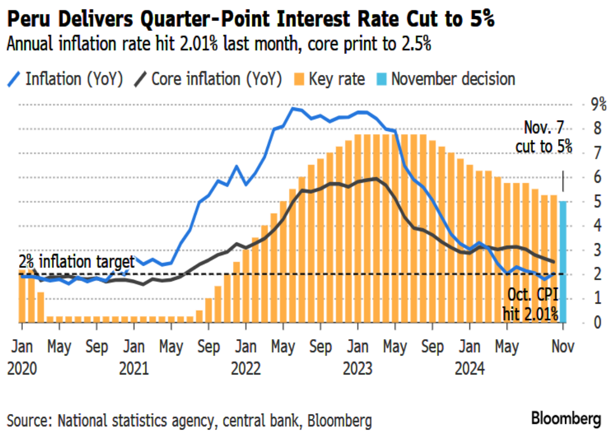
Czech Republic

The Czech National Bank yesterday cut its policy rate by 25bps to 4.0%, as expected, with some analysts now expecting a pause in the easing cycle. Five members of the MPC were in favor of the rate cut, while one MPC member voted in favor of a 50bps rate cut and the other MPC member was in favor of keeping rates unchanged. The new staff projections showed a lower interest rate forecast (which Goldman Sachs analysts argue is likely driven by a more dovish external rate environment), but also an upward revision in inflation (which JP Morgan analysts partially attribute to a weaker currency). The central bank has now cut rates by a cumulative 300bps since the start of the easing cycle in December 2023. JPMorgan analysts expect that rates would remain on hold until end-2025, but Goldman Sachs analysts expect a 25bps rate cut at the final policy meeting of this year in December. Contacts are now focused on the October inflation print, due next week. The Czech koruna closed marginally stronger against the euro yesterday (+0.3%), was little changed against the euro this morning, but remains roughly 2.1% weaker YTD.



Peru

Peru's central bank cut its benchmark interest rate amid cooling core inflation. Policymakers cut their benchmark rate by 25 bps to 5%. Six out of 11 Bloomberg analysts forecasted the move, while the rest expected the central bank to hold rates at 5.25%, so the move was unexpected by many. Despite headline inflation (2% y/y from 1.8% y/y) increasing in October, it remains within the target range of 1–3%. Additionally, chief economist Adrian Armas previously emphasized the need to continue to fight inflation, even though it has declined in four consecutive months. Policymakers revealed that the evolution of core inflation, inflation expectations, and economic activity will be considered for future monetary policy adjustments.



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Global Financial Indicators

11/8/24 7:29 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,973	0.7	4.7	3.9	36.3	25
Europe		4,821	-0.6	-1.2	-2.6	15.4	7
Japan		39,500	0.3	1.1	-0.3	21.3	18
China		4,104	-1.0	5.5	5.6	14.4	20
Asia Ex Japan		79	2.7	3.5	-0.8	22.6	18
Emerging Markets		46	2.2	3.0	-0.9	19.1	14
Interest Rates					basis points		
US 10y Yield		4.3	-1	-7	30	-18	43
Germany 10y Yield		2.4	-4	0	16	-21	38
Japan 10y Yield		1.0	0	6	8	15	40
UK 10y Yield		4.5	-3	3	29	23	94
Credit Spreads					basis points		
US Investment Grade		116	-3	-12	-8	-43	-18
US High Yield		315	3	-19	-27	-122	-70
Exchange Rates					%		
USD/Majors		104.5	0.0	0.2	1.9	-1.0	3
EUR/USD		1.1	-0.3	-0.6	-1.9	0.6	-2
USD/JPY		152.5	-0.3	-0.3	2.9	1.0	8
EM/USD		44.8	-0.5	0.4	-1.8	-5.6	-7
Commodities					%		
Brent Crude Oil ($/barrel)		74.9	-0.9	2.5	-2.4	-1.9	0
Industrials Metals (index)		148.0	-2.1	-0.3	-2.6	5.8	4
Agriculture (index)		57.0	-0.4	2.5	0.0	-13.5	-9
Implied Volatility					%		
VIX Index (%, change in pp)		15.2	0.0	-6.7	-6.2	0.7	2.7
Global FX Volatility		8.3	0.0	-0.9	-0.4	0.7	0.2
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		89	1	-1	-6	-39	-14
Italy		129	0	1	-1	-57	-39
Portugal		50	1	5	-1	-24	-13
Spain		74	1	2	-1	-31	-23

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

Emerging Market Financial Indicators

Last updated: 11/8/2024 7:49 AM	Exchange Rates: Level		Change (in %)					Local Currency Bond Yields (GBI EM): 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		7.17	-0.4	-0.6	-1.5	1.5	-1.0		1.9	-2	-6	-11	-75	-61
Indonesia		15672	0.4	0.4	-0.1	-0.1	-1.7		6.7	-5	-5	-1	-6	26
India		84	0.0	-0.3	-0.5	-1.3	-1.4		7.2	-7	-7	11	-35	-2
Philippines		58	0.7	0.2	-2.4	-3.9	-5.0		4.8	-13	-4	5	-105	-79
Thailand		34	-0.2	-0.3	-1.5	4.2	0.5		2.4	-4	-7	-16	-74	-33
Malaysia		4.38	0.5	0.0	-2.2	6.9	4.8		3.9	-2	-3	13	3	17
Argentina		994	-0.1	-0.4	-1.9	-64.8	-18.6		32.8	-25	-241	-746	-7659	-5353
Brazil		5.75	-0.9	2.2	-3.7	-14.5	-15.5		12.5	-12	-17	35	106	212
Chile		956	-0.8	0.5	-2.5	-5.7	-7.9		5.2	2	-2	39	-26	30
Colombia		4313	2.3	2.6	-2.3	-7.0	-10.1		8.3	0	-48	47	4	62
Mexico		19.94	-0.7	1.7	-2.9	-12.0	-14.9		9.4	2	-34	41	23	92
Peru		3.8	0.8	0.6	-0.2	0.7	-1.2		6.8	0	-4	26	-45	8
Uruguay		42	-0.3	-0.5	-1.1	-4.4	-6.9		9.4	-3	7	4	-26	-9
Hungary		377	-0.8	-0.2	-3.6	-6.3	-8.0		6.6	-10	-24	38	-57	84
Poland		4.01	-0.5	0.4	-2.3	3.4	-1.9		5.0	1	-21	21	19	52
Romania		4.6	-0.3	-0.6	-1.8	0.4	-2.4		6.8	-3	2	22	10	55
Russia		97.4	0.1	0.6	-0.6	-5.7	-8.2							
South Africa		17.5	-1.2	0.8	0.4	5.5	4.9		8.8	1	-14	4	-68	-33
Türkiye		34.36	-0.4	-0.1	-0.3	-17.1	-14.1		30.0	-57	-62	13	-172	323
US (DXY; 5y UST)		105	0.0	0.2	1.9	-1.0	3.2		4.16	-1	-7	31	-35	31

	Equity Markets: Level		Change (in %)					Bond Spreads on USD Debt (EMBIG): 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		4,104	-1.0	5.5	5.6	14.4	19.6		105	2	-12	-62	-53
Indonesia		7,287	0.6	-2.9	-3.1	7.0	0.2		93	5	3	-36	-3
India		79,486	-0.1	-0.3	-2.3	22.5	10.0		89	2	-7	-41	-27
Philippines		6,977	-0.5	-2.3	-4.6	13.2	8.2		82	5	6	-23	2
Thailand		1,465	-0.3	0.0	-0.4	5.4	3.4		0	0	0	0	0
Malaysia		1,621	-0.1	1.1	-0.8	12.2	11.5		63	-6	-11	-32	-22
Argentina		2,015,558	2.0	9.7	16.4	244.6	116.8		859	-127	-349	-1634	-1054
Brazil		129,682	-0.5	0.0	-1.4	8.8	-3.4		206	0	4	-19	-9
Chile		6,562	-0.3	0.2	1.1	16.2	5.9		112	1	2	-36	-13
Colombia		1,359	-0.4	0.0	4.5	23.7	13.7		315	-20	11	-2	44
Mexico		52,311	1.1	3.3	1.1	2.5	-8.8		283	-17	-7	-81	-51
Peru		30,316	-0.2	-0.5	0.2	40.0	16.8		134	-4	1	-30	-10
Hungary		76,609	0.2	3.7	3.3	33.7	26.4		156	3	12	-37	7
Poland		82,149	-0.4	3.3	0.5	14.8	4.7		115	7	10	-1	18
Romania		17,392	0.3	-0.4	-0.7	19.6	13.1		205	4	18	13	4
South Africa		84,998	-1.2	-1.4	-0.6	17.3	10.5		271	-12	4	-100	-37
Türkiye		9,189	2.7	3.4	1.6	16.9	23.0		253	-15	-21	-121	-61
EM total		46	-1.6	3.0	-0.9	19.1	13.9		368	-15	-17	-28	23

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

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