



- Market expectations for October ECB rate cut increased following recent inflation data ([link](#))
- Metals prices have soared on bets for Chinese demand, but some analysts are skeptical ([link](#))
- Colombia cut interest rates by 50 bps, with some members voting for 75 bps ([link](#))
- Brazilian economists raised their forecasts for the policy rate in 2024 and 2025 ([link](#))
- CMBS delinquency rate rose sharply in September, driven by retail sector ([link](#))

[Mature Markets](#)

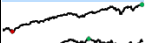


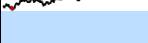



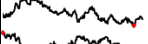


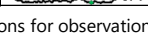
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## Investors turn their lonely hearts toward Europe as rate cuts beckon

The epic rally in Chinese equities took a breather with markets closed, while investors are increasingly confident the ECB will cut interest rates as inflation eases and activity moderates. Euro area inflation fell to 1.8% y/y in September, in line with expectations and down from 2.2% previously. European government bond yields were down as much as 7–12 bps across countries, while the euro declined against the dollar. Markets are now pricing in six cuts by the ECB through June, only slightly less than for the Federal Reserve. Treasuries reversed some of yesterday's sell off this morning, with 10y bond yields 3–4 bps lower. Friday's nonfarm payrolls will be the next key catalyst for a sustained move in either direction. Japanese stocks reversed some of Monday's losses, with the Nikkei gaining 1.9%, after the Tankan sentiment index showed manufacturing sentiment held firm. Oil prices slipped lower to near \$71 per barrel on news that Libyan oil production could resume soon. Elsewhere, workers at East and Gulf coast ports began striking today.

Key Global Financial Indicators

Last updated: 10/1/24 7:59 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5762	0.4	1	2	34	20.81
Eurostoxx 50		5007	0.1	1	1	20	11
Nikkei 225		38652	1.9	2	0	22	16
MSCI EM		46	-1.6	4	6	21	14
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.74	-4.0	1	-16	-83	-14
Germany 10y Yield		2.05	-7.5	-10	-25	-79	2
EMBIG Sovereign Spread		361	-6	-11	-27	-69	-22
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.1	-0.2	0	1	-2	-4
Dollar index, (+) = \$ appreciation		101.1	0.3	1	-1	-5	0
Brent Crude Oil (\$/barrel)		71.3	-0.6	-5	-10	-25	-8
VIX Index (% change in pp)		16.9	0.2	1	2	-1	4

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Mature Markets

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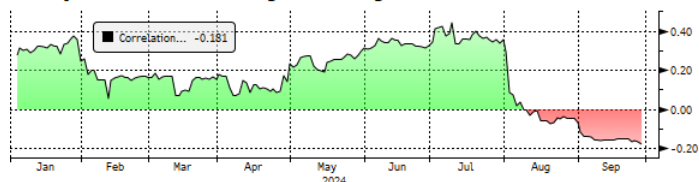
### United States

The S&P500 closed 0.4% on Monday after intraday losses reached as high as 0.6% following comments by Chair Powell. Fed Chair Powell signaled that the Fed is in no hurry to cut interest rates, casting doubt on market expectations for a 50 bp cut at the November meeting. 2y Treasury yields rose 8 bps following the comments, driven largely by real yields, with the dollar appreciating 0.4%. **Treasury bond returns reached 4.7% in the third quarter, driven by declining yields, and likely helped ease pressure on bank balance sheets from unrealized losses.** Alongside the bond rally, high yield bond issuance reached the highest level in three years in September.

**Usage of the Fed's standing repo facility rose to \$2.6 bn, the highest volume since the facility was formally announced in July 2021.** Most contacts believe the usage reflects quarter end funding pressures and should dissipate in the coming days. The weighted average rate accepted was 5.007%, compared to a minimum bid at 5.0%. It was unclear if the volume came from one or many counterparties.

**The bond equity correlation has turned negative in recent months.** Some analysts attributed the change to moderating inflation and recession fears. In such an environment, a shock to output would cause a drop in short term interest rates (an increase in bond prices), and a decline in equity prices. Such a relationship provides diversification benefits for investors, where bond prices can mitigate equity losses.

**Bonds, Stocks No Longer Move Together**  
60-day correlation turned negative in August



Source: Bloomberg

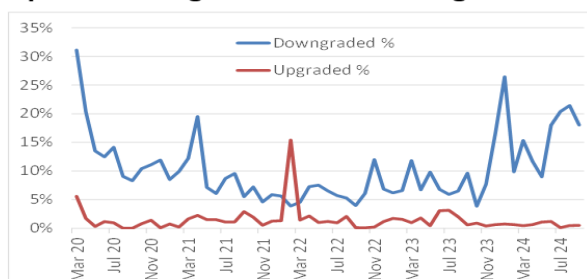
Bloomberg

**CMBS delinquency rates rose sharply in September, driven by the retail sector.** The share of commercial mortgage-backed securities (CMBS) in delinquency by more than 30 days rose to 5.7% at the end of September, an increase of 26 bps from the previous month and 131 basis points from a year earlier. The retail segment jumped from 6.21% to 7.07% during September and drove half the overall increase, but delinquency rates also rose in office, multifamily, and lodging segments. Credit rating downgrades accounted for 18% of total rating actions in September, in line with recent months and roughly twice the level from a year earlier. While the path of policy rate cuts may ameliorate market concerns about CRE credit quality deterioration, realized delinquencies underscore risks embedded in existing credits.

**Percentage of CMBS 30+ days delinquent**



**Up- and Downgrades % Total Ratings Actions**

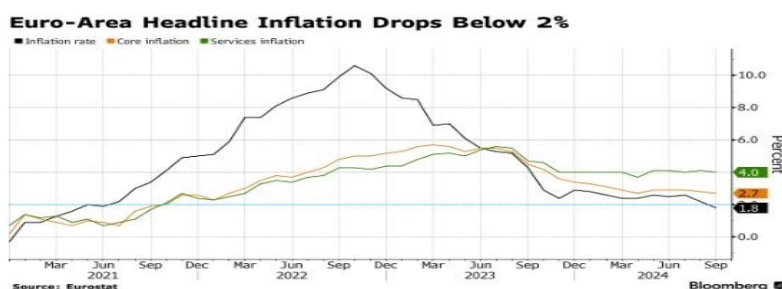


Source: Trepp, BofA Securities. Ratings actions include Moody's, S&P, Fitch, DBRS and KBRA.

## Europe

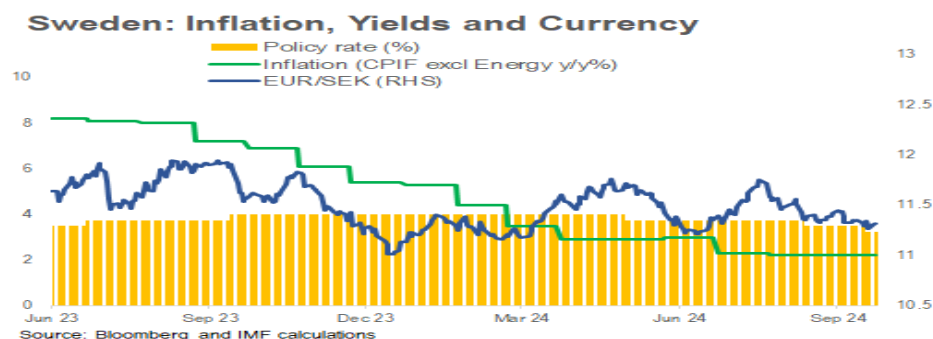
**European equities were mixed with the Stoxx 600 index up +0.2% this morning**, led by gains in the real estate (+1.4%) and information technology sectors (+1.3%). 10y German bund yields declined early in the session and extended the move following the release of Euro area inflation data.

**Market expectations for an October ECB rate cut increased after preliminary Euro area headline inflation declined to 1.8% y/y**, in line with expectations and down from 2.2% prior. Investors had been expecting a favorable print following recent country inflation data from France, Spain, and Germany. Services inflation declined to 4% y/y in September, down from 4.1% y/y in the prior month. Speaking at the European Parliament yesterday, ECB President Lagarde remarked that policymakers were growing more optimistic that “inflation will return to target in a timely manner.” This morning, ECB Governing Council (GC) member Rehn commented that the “direction of the ECB’s monetary policy is clear” although noted that “the pace and scale of the rate cuts will depend on the GC’s overall assessment on a meeting-by-meeting basis”. European yields extended their early morning decline following the release, with German bunds down about 7 bps and French OATs around 11 bps lower. **Markets are now pricing in 23 bps of cuts in October, up from 16 bps a week ago.** The euro fell 0.4% against the dollar to trade at 1.1091.



## Sweden

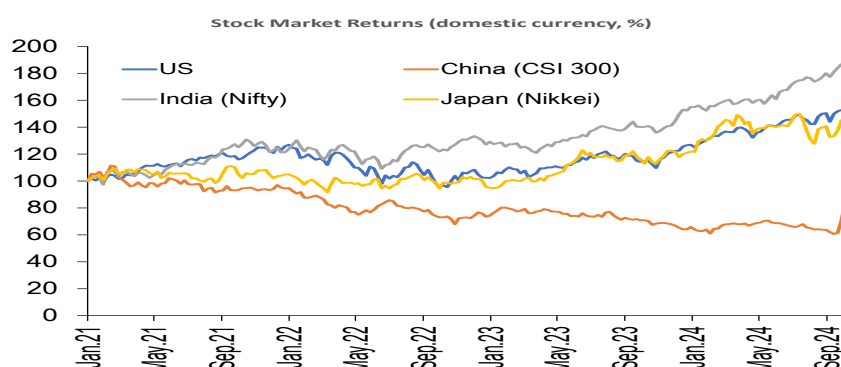
**Riksbank meeting minutes suggest scope for further rate cuts.** Central bank discussions and analyst commentary suggest that further rate cuts could take place at the two remaining MPC meetings this year, with a 50 bp move on the table. Per the minutes of last week’s meeting, where policymakers lowered the benchmark rate by 25 bps to 3.25%, officials noted that “The economy is currently weak and, as yet there are few concrete signs of a recovery in household consumption. Moreover, our target variable, CPIF inflation was only 1.2% in August. These circumstances could be arguments in favor of faster interest-rate cuts.” Analysts at Svenska Handelsbanken noted that the “Board is clearly ready to act more swiftly if warranted”. This morning the Swedish krona was trading broadly unchanged against the euro at 11.31/€, although the currency is around 1.7% weaker against the euro year to date.



## Emerging Markets

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**EMEA equities were mixed on Tuesday, while currencies mostly weakened this morning.** Equities underperformed in Poland (-0.5%) and Bulgaria (-0.5%), while those in Egypt (+0.9%) and Hungary (+0.3%) gained. CEE currencies were mostly weaker against the euro with the Czech koruna underperforming (-0.2%). The South African rand weakened against the dollar (-0.3%). On the policy front, Mozambique yesterday cut its policy rate by 75 bps to 13.5%, as expected. **In Asia, Chinese markets were closed for a holiday after a weeklong rally, which still barely dented China's underperformance since 2021.** Other regional markets were mixed, with major ASEAN markets generally gaining. **Most EM currencies were lower, with the Thai baht (-1.2%) and Malaysian ringgit (-0.8%) leading the declines.** In Latin America, regional currencies were mixed and equities declined Monday amid a flurry of central bank decisions. **Central banks in Colombia, the Dominican Republic, and Jamaica cut interest rates by 50 bps, 25 bps, and 25 bps, respectively.** Currencies in Peru (+0.2%) and Chile (+0.1%) appreciated, while those in Colombia (-0.7%) and Brazil (-0.3%) depreciated against the dollar.

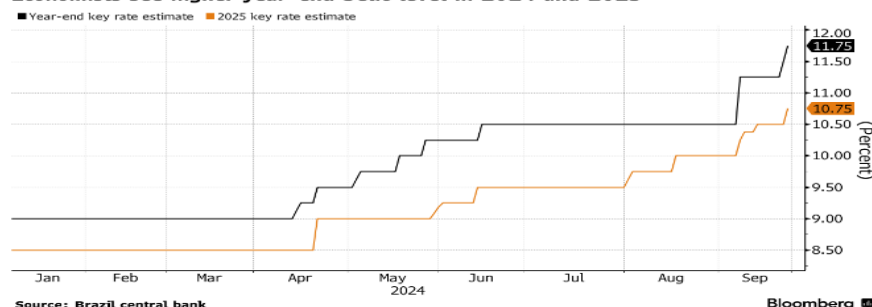


## Brazil

**Brazilian economists raised their forecasts for the policy rate in 2024 and 2025.** The central bank reversed course after an easing cycle and hiked rates in September. The weekly economist survey showed the year end policy rate at 11.75% and 10.75%, up 25 bps from the previous edition. Bloomberg surveys showed that analysts expect inflation to reach 4.37% at end 2024, just below the upper band of the inflation target of 3% (plus or minus 1.5%). The central bank recently raised its growth forecast for 2024 to 3.2% from 2.3% in June. **The real gained nearly 3% in September.**

### Brazil Analysts Raise Their Key Rate Forecasts

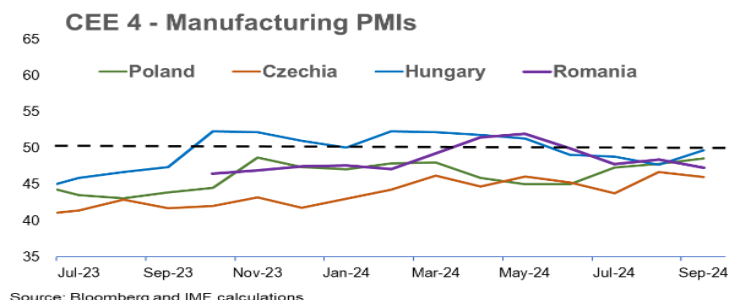
Economists see higher year-end Selic level in 2024 and 2025



## CEE-4

**Manufacturing PMIs in CEE-4 show ongoing contraction despite some diverging trends.** The September manufacturing PMI printed above expectations in Poland (48.6 vs 47.3 expected; 47.8 previously) and Hungary (49.7 vs 47.3 expected; 47.7 previously). Czechia PMI was in line with expectations (46; 46.7 previously), while Romania declined to 47.3, from 48.8 previously. Erste Bank linked

Romania's weak print to soft external demand from Germany, and now expects industrial production to contract in 2025. ING revised down its GDP forecast for Polish growth in Q3 to 2.8% y/y from 3.1% y/y. For Czechia, ING highlighted that the divergence between solid consumer spending and industrial underperformance could pose a risk to the growth outlook. CEE currencies were mostly weaker against the euro this morning.



## China and Commodity Prices

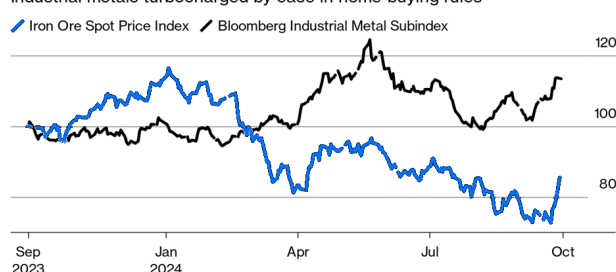
**Metals prices have soared as investors bet on a rebound in Chinese demand, but analysts are skeptical the rally will persist.** Société Générale analysts believe that recent stimulus announcements won't translate into increased copper demand, leaving those betting on higher prices vulnerable to a reversal. Copper prices have increased around 12%, but analysts believe this could be a mirror of the false dawn seen in Q2 when sentiment also briefly turned around. Money managers increased their long positioning in copper following the Fed's 50 bp point cut in September. Other metals, such as iron ore, have also gained, up over 20 percent since last week. In the near term, policymakers will be closely watching any sign that commodity prices could drive inflation higher just as many central banks begin to cut interest rates.

Copper's recent advance looks suspiciously like 2Q24\*



### Real Boost?

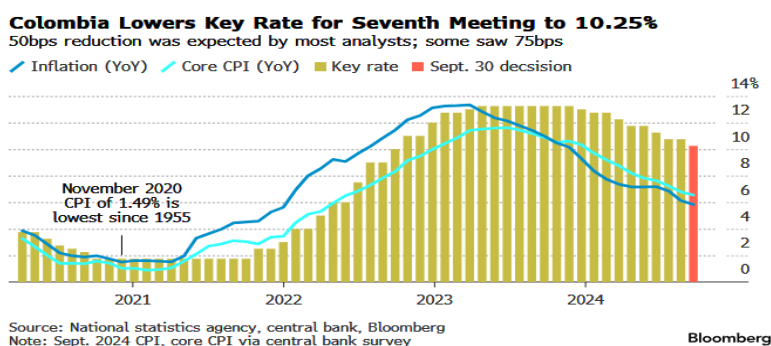
Industrial metals turbocharged by ease in home-buying rules



Bloomberg Opinion

## Colombia

**Colombia cut interest rates by 50 bps to 10.25% in a split decision.** The central bank's monetary policy committee (MPC) voted 4–3, with three members in favor of a 75 bp reduction. The 50 bp cut was in line with the median survey respondent, though some market participants had expected a 75 bp move. The MPC stated the move would "continue to support the recovery of economic growth and maintains the necessary prudence given the risks that remain over the behavior of inflation." The Colombian peso has been one of the worst performing EM currencies over the last month amid fiscal concerns. Governor Leonardo Villar, who was just reappointed for another four-year term, also highlighted that the exchange rate was a factor in the move.



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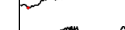





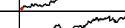
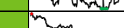



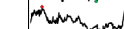










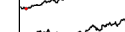
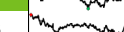

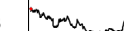






## Global Financial Indicators

10/1/24 7:58 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		5762	0.4	1	2	34	21
Europe		5007	0.1	1	1	20	11
Japan		38652	1.9	2	0	22	16
China		4018	8.5	25	21	9	17
Asia Ex Japan		78	-1.6	5	7	24	18
Emerging Markets		46	-1.6	4	6	21	14
<b>Interest Rates</b>			basis points				
US 10y Yield		3.74	-4.0	1	-16	-83	-14
Germany 10y Yield		2.05	-7.5	-10	-25	-79	2
Japan 10y Yield		0.86	-0.5	4	-4	9	24
UK 10y Yield		3.95	-5.4	1	-7	-49	41
<b>Credit Spreads</b>			basis points				
US Investment Grade		129	-0.8	0	-5	-22	-5
US High Yield		354	-5.4	-7	-10	-79	-31
<b>Exchange Rates</b>			%				
USD/Majors		101.10	0.3	1	-1	-5	0
EUR/USD		1.11	-0.4	-1	0	6	0
USD/JPY		143.8	0.1	0	-2	-4	2
EM/USD		46.1	-0.2	0	1	-2	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		71.2	-0.7	-4	-7	-14	-5
Industrials Metals (index)		155	0.9	3	7	7	9
Agriculture (index)		58	-0.5	1	7	-9	-7
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		16.9	0.1	1.5	1.9	-0.6	4.4
Global FX Volatility		8.6	0.0	0.2	-0.1	0.4	0.5
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		99	0.2	0	-7	-53	-5
Italy		130	-2.7	-3	-10	-64	-37
Portugal		56	-2.0	-1	-5	-21	-7
Spain		78	-2.4	-1	-6	-32	-19

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Emerging Market Financial Indicators

Last updated: 10/1/2024 7:57 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		7.02	-0.1	0.5	1.4	4	1		2.0	0.0	14	5	-73	-54
Indonesia		15200	-0.4	-0.1	2	2	1		6.5	1.3	2	-17	-45	-1
India		84	0.0	-0.2	0	-1	-1		6.9	0.6	-1	-14	(81.3)	-26
Philippines		56	-0.2	0.2	0	1	-1		4.8	14.9	-8	-23	-102	-82
Thailand		33	-1.3	0.9	5	13	5		2.4	2.0	4	-2	-88	-27
Malaysia		4.16	-0.8	0.0	5	13	11		3.7	0.6	0	-4	-26	-2
Argentina		969	-0.2	-0.4	-2	-64	-17		39.5	-102.4	-9	-222	-7919	-4692
Brazil		5.45	-0.3	1.6	3	-7	-11		12.3	8.1	-20	21	34	189
Chile		903	-0.4	0.8	2	1	-3		4.7	-0.3	3	-25	-106	-19
Colombia		4207	-0.7	-1.2	-1	-1	-8		7.6	0.0	3	-26	-170	-7
Mexico		19.70	0.0	-1.9	1	-10	-14		8.7	0.0	12	-41	-85	25
Peru		3.7	0.2	2.0	2	2	0		6.2	-2.6	-1	-32	-124	-45
Uruguay		42	-0.5	1.1	-4	-7	-7		9.7	-15.4	-51	14	10	18
Hungary		359	-0.7	-1.8	-1	3	-3		5.8	3.0	-11	-17	-164	4
Poland		3.87	-0.5	-1.6	0	14	2		4.5	3.5	-5	-21	-48	1
Romania		4.5	-0.5	-0.9	0	6	0		6.4	-3.9	-5	-4	-34	23
Russia		93.6	-0.6	-0.7	-4	6	-4							
South Africa		17.3	-0.2	-0.3	3	11	6		8.5	5.0	-1	-24	-152	-63
Türkiye		34.20	0.0	-0.2	-1	-20	-14		28.6	22.0	39	10	147	187
US (DXY; 5y UST)		101	0.3	0.6	-1	-5	0		3.52	-3.5	6	-18	-109	-32

	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		4018	0.0	25	21	9	17		123	-1	-1	-49	-35		
Indonesia		7642	1.5	-2	-1	10	5		98	-3	-2	-32	2		
India		84266	0.0	-1	2	28	17		103	-6	-10	-36	-13		
Philippines		7380	1.5	-1	7	17	14		82	-3	-5	-24	2		
Thailand		1465	1.1	0	8	0	3		0	0	0	0	0		
Malaysia		1656	0.5	-1	-1	17	14		77	-6	-7	-19	-8		
Argentina		1697401	-1.8	-5	-1	202	83		1288	-23	-150	-1259	-625		
Brazil		131816	-0.7	1	-3	13	-2		218	-4	-3	-4	3		
Chile		6491	-0.6	1	0	11	5		114	-6	-3	-12	-11		
Colombia		1308	-1.0	-2	-4	17	9		316	3	4	-21	45		
Mexico		52477	-0.6	0	1	3	-9		308	-7	-12	-63	-26		
Peru		29942	-1.1	2	5	33	15		134	-6	-3	-22	-10		
Hungary		74046	0.2	1	2	33	22		153	-1	5	-47	4		
Poland		83515	0.3	0	-2	28	6		111	-1	10	-14	14		
Romania		17591	-0.1	0	-3	23	14		196	0	-1	-11	-5		
South Africa		87189	0.7	3	4	20	13		275	-13	-17	-116	-33		
Türkiye		9565	-1.0	-5	-3	15	28		279	-7	-20	-110	-35		
EM total		46	0.5	4	6	21	14		394	-3	-6	-2	49		

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

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