GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

THURSDAY, OCTOBER 10, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **US inflation report comes in marginally above forecasts** (link)
- **People's Bank of China launches new facility to support the equity market** (link)
- **Investors ponder Fed rate cut forecasts** (link)
- **German government downgrades GDP forecast for 2024** (link)
- **Analysts flag potential year end liquidity risk in US** (link)
- **September inflation surprises to the upside in Egypt** (link)
- **Special Feature: Emerging and Frontier Market Issuance** (attached)

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US CPI data slightly higher than expected

The US CPI data were fractionally above the consensus forecasts. Stocks in Europe were down this morning and US equity futures took a step backwards in early morning trading after the S&P 500 set its 44th record for the year yesterday. The Dow Jones index also set a new record. Most stocks in Asia rallied today, led by China and Hong Kong SAR, after the People's Bank of China launched a new swap facility to support the local equity market. Treasury and bund yields were higher ahead of the US inflation report, while oil prices rebounded after losing ground yesterday. Inflation was lower than expected in Norway, but rate cuts are not expected until 2025. Inflation continued to diverge in Eastern Europe, declining in Hungary but rising in the Czech Republic. Meanwhile, the effort begins to assess the scale of the damage inflicted by Hurricane Milton in Florida.

Key Global Financial Indicators

Last updated: 10/10/24 7:49 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5792	0.7	1	5	33	21
Eurostoxx 50		4979	-0.1	1	5	18	10
Nikkei 225		39381	0.3	2	11	23	18
MSCI EM		46	-0.5	-2	9	20	14
Yields and Spreads					bps		
US 10y Yield		4.09	1.8	24	45	-56	21
Germany 10y Yield		2.28	2.6	14	15	-49	26
EMBIG Sovereign Spread		349	-5	-11	-42	-103	-35
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.5	-0.1	-1	0	-2	-6
Dollar index, (+) = $ appreciation		102.9	0.0	1	1	-3	2
Brent Crude Oil ($/barrel)		77.4	1.1	0	12	-12	0
VIX Index (%, change in pp)		21.0	0.2	1	2	4	9

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 latest September US CPI data were slightly above expectations. Core annualized CPI ticked up to 3.3% from 3.2% the month before. Jobless claims were significantly higher than expected.

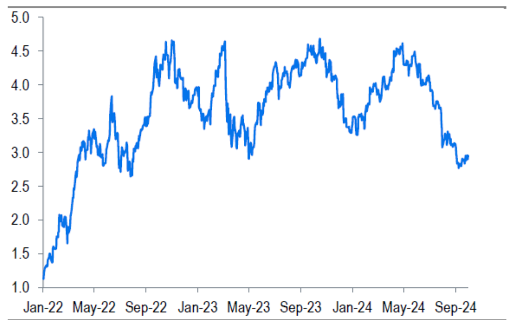
Variable	Consensus Forecast	Actual Data
CPI month-on-month	+0.1%	+0.2%
Core CPI mom	+0.2%	+0.3%
CPI year-on-year	+2.3%	+2.4%
Core CPI yoy	+3.2%	+3.3%

The market response was relative muted. 10-year Treasury yields went up slightly while the two-year yield declined. US equity index futures declined further.

Market Variable	Level at 8.15 am	Level at 8.35 am
10yr Treasury	4.08%	4.09%
2yr Treasury	4.04%	4.01%
November Fed Funds Prediction	-0.802 cuts	-0.83 cuts
December Fed Funds Prediction	-1.72 cuts	-1.73 cuts
S&P 500 Futures	-0.07%	-0.2%
USDJPY	148.94	148.85
EURUSD	1.0934	1.0931

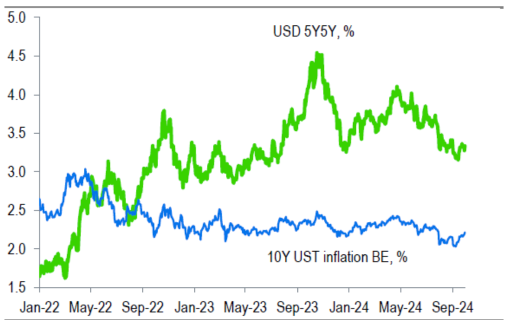
The recent rise in oil prices due to escalating tensions in the Middle East has refocused attention on the risk of inflation and future Fed interest rate policy. The Fed Funds futures market predicts that the policy rate will fall below 3.5% over the next 12 months, an aggressive rate cutting path. However, continued strength in the economy and potentially higher inflation could force the Fed to reconsider its rate cutting policy by slowing it down, halting it or even raising rates. The most recent data shows no signs of a slowing economy, with higher than expected jobs growth, strong retail sales, robust durable goods orders and better than expected capital expenditures. The widely followed Citi Economic Surprise Index has turned positive for the first time since April. The 10-year Treasury Inflation Protected Security (TIPS) yield is now back above 2%, making some analysts ask whether the best news on inflation is behind us. The post-payrolls jump in US Treasury yields is a reminder of the risk that interest rates could increase significantly in the coming weeks, potentially destabilizing markets.

Figure 6: Can the FOMC match market rate-cut expectations?
USD OIS 1Y1Y, %



Source: Bloomberg, Standard Chartered Research

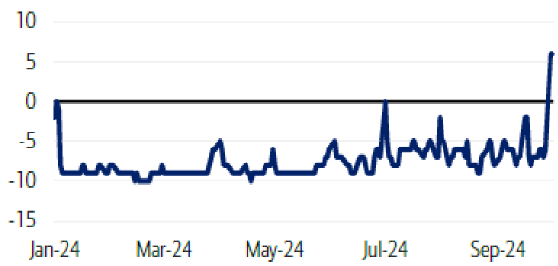
Figure 7: Have we seen the best news on inflation?
USD OIS 5Y5Y vs 10Y UST inflation BE, %



Source: Bloomberg, Standard Chartered Research

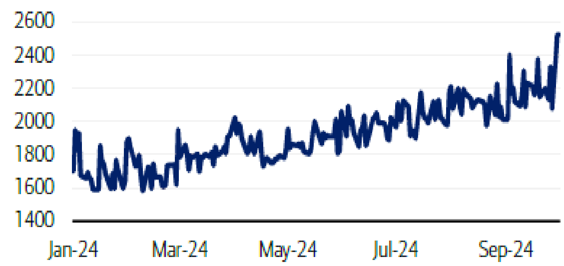
US money markets are at risk of significant funding stress at year end, according to multiple analysts, if the stresses experienced at the last quarter end on September 30 are repeated. Bank of America, for example, points out that the Secured Overnight Funding Rate (SOFR)—the benchmark of the short term money market—shot up by 12 bps on September 30, the largest one day move since the Covid epidemic struck. At the same time, SOFR daily trading volume soared to $450 bn. Volumes in sponsored repo transactions also went up very sharply to $158 bn, and repo volume for mortgage backed securities (MBS) also went up. Volumes at the Fed's Standard Repo Facility (SRF) hit $2.6 bn, a small number in relative terms but a record for the facility. All these moves were caused by an extreme shortage of liquidity. Month-end and quarter-end dates are frequently associated with tight liquidity, but September 30 was unusually volatile. Analysts point to the increasing difficulty of absorbing the growing supply of Treasuries, the continuance of quantitative tightening, and the coincidence of there being $146 bn of new Treasuries settling on September 29 and September 30 as causes for the stress. Bloomberg points out that $147 bn of new Treasures are scheduled to settle on December 31, and that year-end is an even more sensitive time for banks in terms of meeting regulatory requirements, increasing the risk of another funding squeeze. The Fed's SRF may need to play a bigger role if the Fed has to become the repo lender of last resort, but efforts must be made to remove the stigma associated with it.

Exhibit 20: SOFR spread to IORB (bps)
SOFR jumped 12bp on quarter-end



Source: Bloomberg
BofA GLOBAL RESEARCH

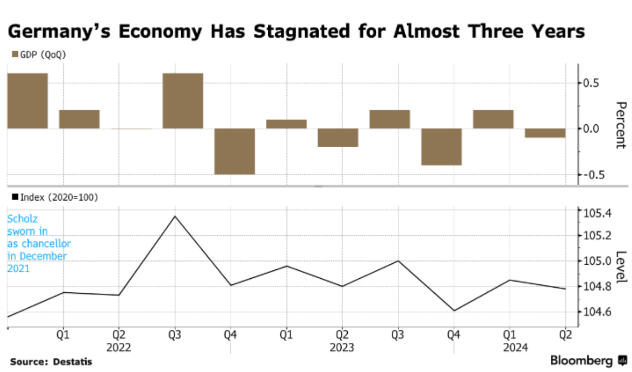
Exhibit 21: SOFR volume ($bn)
SOFR volumes climbed nearly $450b on quarter-end



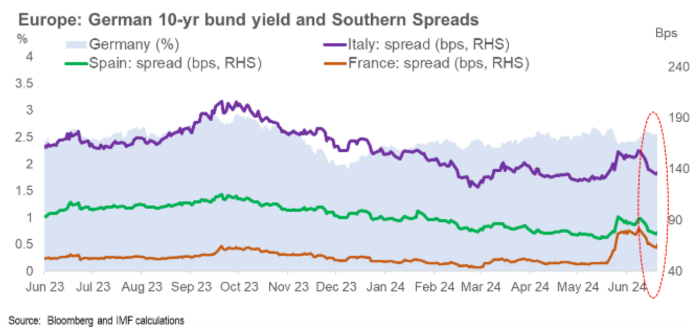
Source: Bloomberg
BofA GLOBAL RESEARCH

Europe

European equities mostly traded sideways this morning. The euro was steady and local government bond yields were higher. **The German government revised its GDP forecast for 2024 to -0.2%**, following a -0.3% drop last year. Economy Minister Robert Habeck had previously predicted 0.3% growth for this year. Recovery is expected with 1.1% growth in 2025 and 1.6% in 2026. Habeck emphasized the need to address structural problems such as energy security, bureaucracy, and skilled worker shortage, amid geopolitical uncertainties; the government has proposed a stimulus package including tax breaks, employment incentives, and electricity subsidies.

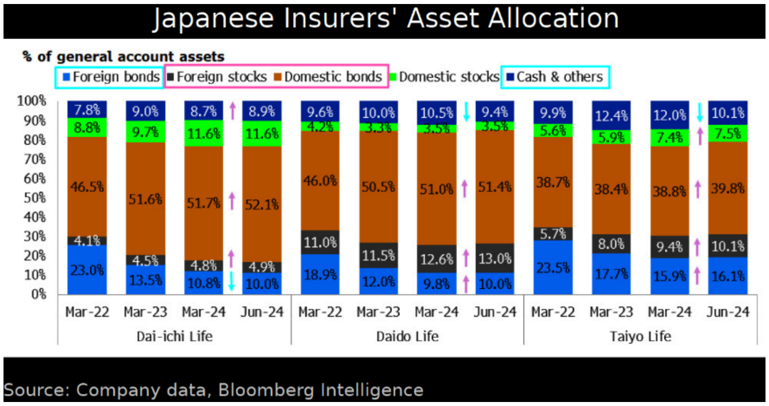


Sovereign bond yield spreads of Italy and France marginally declined, with the 10-year Italian BTP-Bund spread at 129bps (-2bps) and the 10-year French OAT-Bund spread at 76 bps (-1bp**). In France, the new government led by PM Michel Barnier will today present the new budget draft for 2025 that includes a large saving plan of €60bn** aimed at capping the deficit at 6% of GDP this year (and 5% in 2025) against the previous forecast of 7%. Analysts at Crédit Agricole believe markets will focus on the details of the estimated €20bn of new taxes on large (over €1bn revenues) companies and warn about the possible Parliamentary reaction to that plan as the government remains under the threat of a no-confidence vote if both the left-bloc NFP and the far-right party RN unify to make the government fall.



Japan

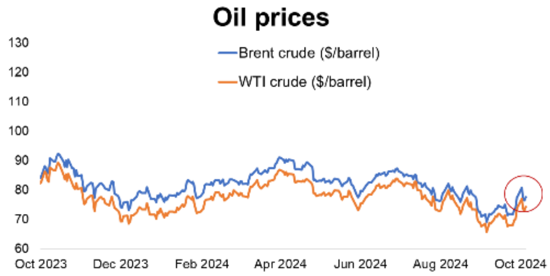
Investors are closely monitoring life insurers' incremental demand for Japanese government bonds (JGBs) amid the Bank of Japan's (BoJ) reduced purchases. According to data from the Life Insurance Association, the sector held ¥388 trn (US$2.6 trn) in invested assets at the end of July, with over 40% allocated to JGBs. Bloomberg analysts expect life insurers' purchases of long and super-long-term JGBs this year to exceed last year's ¥3.26 trn. They believe the sector will gradually increase domestic bond purchases in H2 of the fiscal year, along with reduced appetite for overseas assets due to volatile stocks, a stronger yen, and higher bond yields, noting that the post-hedge return on foreign bonds remained negative due to high currency-hedging costs. Separately, Warren Buffett's Berkshire Hathaway sold a ¥281.8 bn (US$1.9 bn) multi-tranche bond today, the largest issue since 2019, sparking speculation about increased investments in Japanese assets. The issuance was also seen as a test for investor demand for JGBs. 10y JGB yields rose by 2.3 bps to 0.95%, the highest since early August. Japanese equities advanced (Nikkei 225: +0.3%) following the largest weekly foreign inflows in six months last week.



Commodities

Oil prices fell yesterday (Brent -0.7%, WTI -0.4%) **due to rising supply but rebounded today with Brent trading at $77.58** a barrel **(+1.3%)** and WTI at around $74.29 a barrel (+1.4%). US crude inventories jumped by 5.8m barrels to 422.7m, exceeding expectations of a 2-million-barrel increase. The return of

Libyan oil exports is pressuring European crude prices as Mediterranean refiners cut purchases outside the region. According to the International Energy Agency, global oil and natural gas prices will moderate in 2025 reflecting increased supply and weaker demand especially from China.



Source: Bloomberg and IMF calculations

Emerging Markets

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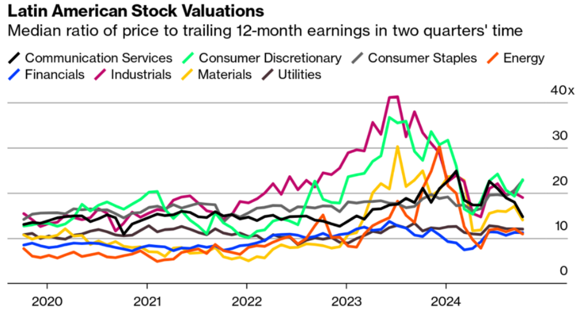
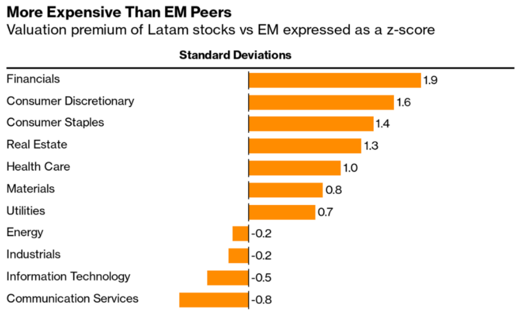
EMEA markets were mixed. Serbia stayed on hold at 5.75% as expected. September inflation data continued to diverge across Central and Eastern Europe (CEE) countries. **Most Asian equities advanced (EM Asia: +1.0%), led by China (CSI 300: +1.1%) and Hong Kong SAR (+3.0%).** However, currencies were weaker ahead of the US CPI report. Analysts think the Bank of Korea will cut by 25 bps to 3.25% tomorrow as inflation falls below target. **Latin American markets were also mixed, with Brazil (-1.2%) down on negative inflation news that appeared to validate the central bank's hawkish stance.** Meanwhile, stocks in Mexico, Colombia and Chile rallied. Local currencies were generally weaker. Uruguay's central bank stayed on hold at 8.5% for the fourth time to anchor inflation expectations.

Latin American Equity Valuations

While certain Latin American price to earnings (P/E) ratios show falling valuations over the past 12 months, financial institutions and retailer premiums are still very elevated relative to EM peers. Blended median P/E ratios from Brazil, Mexico, Chile, Colombia, and Peru have fallen back in-line with historical levels of the past five years (left). However, compared to other EMs (excluding China), a number of industries in Latin America are valued between one and two standard deviations higher (right).



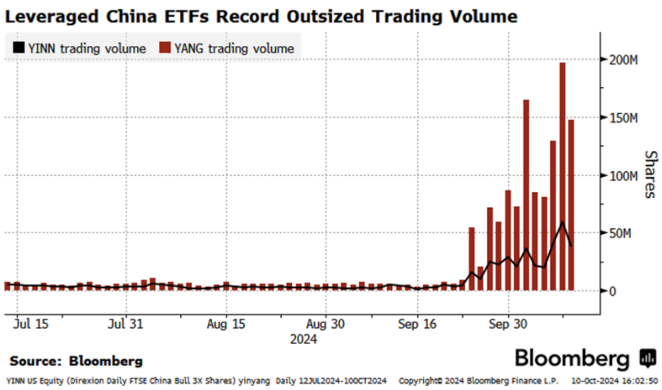
Source: Bloomberg
Note: Excludes information technology, health care and real estate sectors



Source: Bloomberg
Note: Data measures ratio of price to estimated 12-month trailing earnings in two quarters' time, monthly over five years

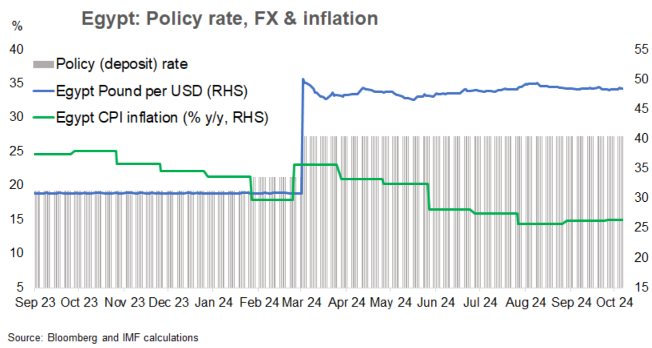
China

Chinese equities resumed their rally after the People's Bank of China (PBC) launched a new swap facility to support the capital market. The swap facility, introduced by PBC Governor Pan last month as part of a major stimulus package, opened for applications today with an initial size of RMB500 bn (US$70.6 bn). It allows eligible brokers, funds, and insurers to obtain highly liquid assets like government bonds by providing collateral such as bonds and stock ETFs. The funds obtained can only be used for stock market investments, which is expected to aid the market without increasing the base money supply. The CSI 300 advanced as much as 3.6% before paring gains to end at 1.1%, while a gauge of Chinese equities listed in Hong Kong SAR soared by +3.5% after gaining +5.6% at one point. Meanwhile, investors are eyeing the forthcoming Ministry of Finance (MoF) briefing on Saturday for the scale and speed of additional fiscal support.



Egypt

September headline inflation surprised to the upside in Egypt. Headline inflation climbed to 26.4% y/y in September, slightly ahead of consensus expectations of 26.0% y/y and up from 26.2% y/y in August, driven by elevated food prices and the pass through of electricity price increases. Analysts at Goldman Sachs believe that yesterday's inflation data reduces the likelihood of rate cuts this year and expect the Central Bank of Egypt to keep the deposit rate on hold at 27.25% at next week's policy meeting. They also expect inflation to remain around current levels for the remainder of the year and as a result expect any monetary policy easing to now start in Q1 of next year (vs Q4 2024 previously) with a steeper path for rate cuts. They expect the policy rate to decline to 13% by end 2025 and forecast around 900bps of rate cuts in Q1 2025 alone.



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Global Financial Indicators

	Level		Change				
10/10/24 7:57 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5792	0.7	1	5	33	21
Europe		4979	-0.1	1	5	18	10
Japan		39381	0.3	2	11	23	18
China		3998	1.1	13	25	9	17
Asia Ex Japan		79	-0.4	-3	12	23	19
Emerging Markets		46	-0.5	-2	9	20	14
Interest Rates					basis points		
US 10y Yield		4.09	1.8	24	45	-56	21
Germany 10y Yield		2.28	2.6	14	15	-49	26
Japan 10y Yield		0.96	2.5	13	6	18	35
UK 10y Yield		4.24	6.2	23	42	-18	71
Credit Spreads					basis points		
US Investment Grade		122	-2.1	-5	-16	-32	-12
US High Yield		340	-3.9	-16	-45	-115	-45
Exchange Rates					%		
USD/Majors		102.93	0.0	1	1	-3	2
EUR/USD		1.09	-0.1	-1	-1	3	-1
USD/JPY		149.0	-0.2	1	5	0	6
EM/USD		45.5	-0.1	-1	0	-2	-6
Commodities					%		
Brent Crude Oil ($/barrel)		77.4	1.1	0	12	-3	3
Industrials Metals (index)		150	0.1	-3	9	8	5
Agriculture (index)		57	0.2	-2	5	-10	-9
Implied Volatility					%		
VIX Index (%, change in pp)		21.0	0.2	0.5	1.9	4.0	8.6
Global FX Volatility		8.5	0.0	-0.2	0.1	0.1	0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		93	-2.0	-6	-12	-58	-11
Italy		129	-0.7	-5	-16	-66	-38
Portugal		50	-1.8	-7	-13	-24	-13
Spain		74	-1.9	-5	-9	-37	-23

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

Emerging Market Financial Indicators

Last updated: 10/10/2024 7:58 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		7.08	0.0	-0.8	0.6	3	0		2.0	-5.4	-4	8	-79	-57
Indonesia		15678	-0.3	-1.6	-1	0	-2		6.7	0.8	16	7	-26	21
India		84	0.0	0.0	0	-1	-1		7.1	5.1	11	14	(70.9)	-11
Philippines		57	-0.5	-1.7	-2	-1	-3		4.8	1.4	4	-25	-96	-79
Thailand		34	-0.2	-1.3	0	9	2		2.5	1.3	5	11	-91	-19
Malaysia		4.29	-0.3	-1.6	1	10	7		3.8	0.1	5	4	-29	5
Argentina		975	0.0	-0.4	-2	-64	-17		40.7	22.8	17	161	-7070	-4572
Brazil		5.59	-1.0	-2.7	0	-8	-13		12.3	24.9	15	67	49	195
Chile		932	0.0	-1.4	2	0	-6		4.9	-0.5	13	23	-72	-3
Colombia		4234	-0.1	-1.2	0	2	-8		7.9	0.0	18	42	-167	23
Mexico		19.48	0.1	-0.6	3	-8	-13		9.1	0.5	27	17	-30	61
Peru		3.8	-0.5	-1.4	1	2	-2		6.5	2.6	29	9	-101	-15
Uruguay		42	-0.7	0.3	-3	-5	-7		9.5	-1.7	-3	-25	-32	-4
Hungary		366	-0.4	-0.6	-2	0	-5		6.2	4.0	16	34	-108	43
Poland		3.94	-0.2	-0.8	-1	9	0		4.8	5.2	30	43	-14	37
Romania		4.6	0.0	-0.9	-1	3	-1		6.5	0.8	7	2	-46	33
Russia		97.4	-0.5	-2.9	-7	3	-8							
South Africa		17.6	0.4	-0.4	2	8	4		8.7	3.0	10	21	-110	-38
Türkiye		34.22	0.1	-0.3	-1	-19	-14		29.4	-9.0	-13	48	236	261
US (DXY; 5y UST)		103	0.0	1.0	1	-3	2		3.94	2.3	31	52	-67	9

	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		3998	1.1	13	25	9	17		114	-10	-12	-59	-44
Indonesia		7480	-0.3	-1	-4	8	3		87	-9	-30	-42	-9
India		81611	0.2	-1	0	23	13		94	-10	-19	-53	-22
Philippines		7411	-0.2	0	7	19	15		73	-10	-29	-33	-7
Thailand		1469	0.8	2	4	1	4		0	0	0	0	0
Malaysia		1641	0.4	0	0	14	13		72	-5	-15	-26	-13
Argentina		1771933	2.3	3	3	154	91		1129	-154	-313	-1550	-784
Brazil		129962	-1.2	-3	-3	11	-3		205	-5	-34	-22	-10
Chile		6541	0.8	2	5	13	6		109	-2	-20	-27	-16
Colombia		1301	0.1	0	-1	17	9		307	-4	-28	-53	36
Mexico		51869	0.2	-1	2	3	-10		296	-4	-41	-80	-38
Peru		29814	-1.4	-1	6	34	15		135	4	-17	-24	-9
Hungary		73976	0.0	2	3	32	22		141	-12	-24	-67	-8
Poland		82795	-0.1	1	2	24	6		102	-4	-14	-32	5
Romania		17625	-0.2	1	1	25	15		185	-10	-31	-38	-15
South Africa		85342	0.0	-1	5	16	11		262	-14	-52	-141	-46
Türkiye		9120	-0.1	2	-5	8	22		271	-15	-43	-129	-43
EM total		46	0.0	-2	9	20	14		382	-10	-34	-32	37

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

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