GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, OCTOBER 11, 2024

LEAD EDITOR: SANJAY HAZARIKA

- **Monthly US PPI inflation comes in close to forecasts** (link)
- **Markets in US at risk from potentially higher interest rates** (link)
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Markets cautious as earnings season begins

Most European equity markets were up, but US equity index futures pointed to a second day of losses after a record close for the S&P 500 and Dow on Wednesday. Japan had a positive day in the equity market, marking a week of solid gains. Treasury and bund yields were slightly higher and oil prices were slightly lower. Earnings season began in the US, as JP Morgan and Wells Fargo reported lower profits, while BNY Mellon reported better than expected results. JP Morgan shares were higher in pre-market trading due to unexpected gains in net interest income. Meanwhile, investors are eagerly looking ahead to Saturday when China's Ministry of Finance will announce further details on fiscal stimulus plans. China's benchmark CSI 300 equity index was down by 2.8% today, ending a week of high volatility. Market participants are also bracing for next week's ECB meeting, where a 25 bps rate cut is almost fully priced in. The unemployment rate in Canada was lower than expected, boosting hopes for rate cuts.

Key Global Financial Indicators

Last updated:	Level		Change from Market Close				
10/11/24 7:49 AM	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5780	-0.2	1	4	32	21
Eurostoxx 50		4973	0.1	0	4	18	10
Nikkei 225		39606	0.6	3	11	24	18
MSCI EM		46	0.2	-1	9	20	14
Yields and Spreads					bps		
US 10y Yield		4.10	3.8	13	44	-46	22
Germany 10y Yield		2.30	4.0	9	18	-42	27
EMBIG Sovereign Spread		353	4	-4	-43	-97	-30
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.6	0.1	0	0	-2	-5
Dollar index, (+) = $ appreciation		102.9	0.0	0	1	-3	2
Brent Crude Oil ($/barrel)		78.7	-0.9	1	11	-8	2
VIX Index (%, change in pp)		20.9	0.0	2	3	5	8

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 monthly PPI inflation data were close to forecasts, while the annualized data was higher than expected.

Jobs Variable	Consensus Forecast	Actual Data
PPI month-on-month	+0.1%	0%
Core PPI mom	+0.2%	+0.2%
PPI year-on-year	+1.6%	+1.8%
Core PPI yoy	+2.6%	+2.8%

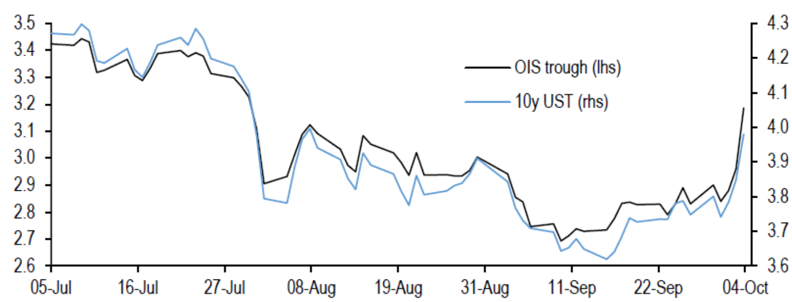
Markets were largely unchanged in the immediate aftermath of the data releases.

Market Variable	Level at 8.15 am	Level at 8.35 am
10yr Treasury	4.09%	4.11%
2yr Treasury	3.97%	3.98%
10/2 Slope	12 bps	13 bps
September 18 Fed Funds Prediction	-0.88 cuts	-0.85 cuts
December 18 Fed Funds Prediction	-1.79 cuts	-1.84 cuts
S&P 500 Futures	-0.1%	-0.03%
USDJPY	148.97	149.04
EURUSD	1.0940	1.0937

Stronger than expected economic data are increasing the risk that US interest rates could move higher and potentially destabilize financial markets. The market has begun to reduce its forecasts for Fed rate cuts, with Fed Funds futures now pricing less than two rate cuts in December from three a month ago and increasing its forecast of the policy rate 12 months in the future to around 3.5% from 2.5% a month earlier. Long term yields closely follow the market's expectations of where the Fed's terminal rate will end up, and the recent rise in Treasury yields has followed at the heels of the changing market forecasts. The two-year yield is up by 42 bps since September 24, while the 10-year yield is up by 45 bps. More strong data on the economy could paradoxically be bad for risk assets. In addition, significant negative inflation surprises would be very negative for markets.

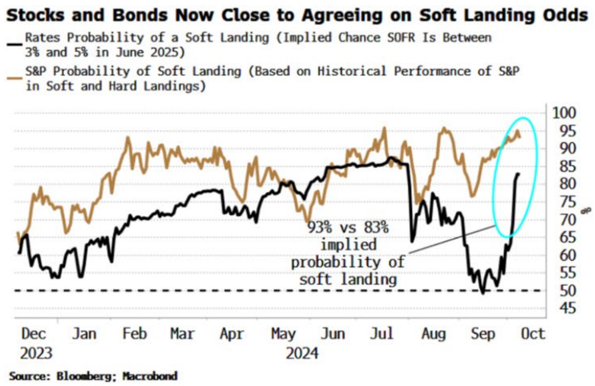
Figure 14: Long-term yields remain highly correlated with the market's terminal Fed funds expectations: any further bearish repricing would drag Treasury yields higher as well...

OIS implied terminal easing rate (lhs) versus 10-year Treasury yields (rhs); % on both axes



Source: J.P. Morgan

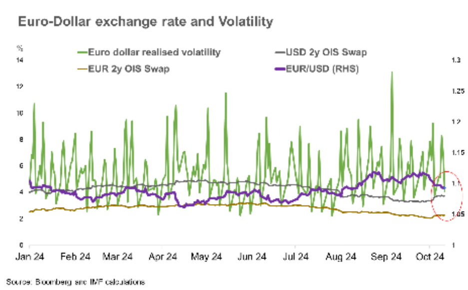
However, both equity and bond markets appear to predict a soft landing in the US based on current market pricing, according to analysis by Bloomberg. The S&P 500 set its 44th new record of the year on Wednesday, and the Dow Jone also set a record that day, indicating that investors are optimistic about US prospects. Based on equity market performances during previous hard and soft landings, the analysis finds that the stock market assigns an 83% probability that the US will have a soft landing. Using options pricing for the interest rate futures market, the analysis finds that the market is pricing a 93% probability of a soft landing, with the soft landing defined as a terminal Secured Overnight Funding Rate (SOFR) in the 3% to 5% range by June 2025. The probability of a hard landing, defined as SOFR below 3% by June 2025, is estimated to be around 15%, while the probability that inflation comes back (Fed Funds above 5% by June 2025) is close to zero.

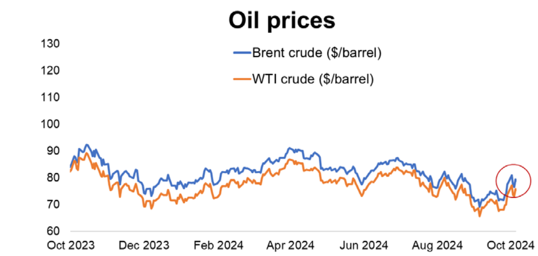


Europe

European equities were slightly higher this morning as investors digested a hotter than expected inflation print yesterday in the US and wait for the Q3 earnings season to start later today**,** with the Stoxx 600 index as well as the stock markets across main European countries little changed.

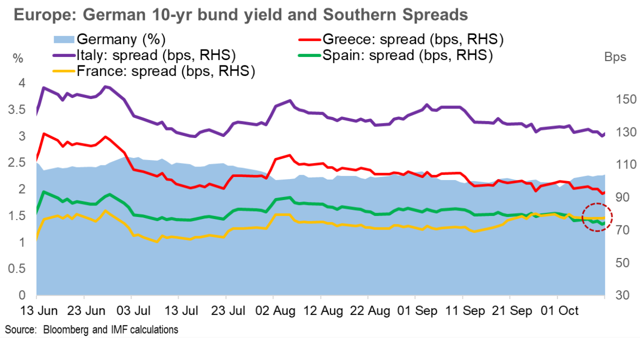
The euro was little changed against the dollar today at $1.098/€, as money markets forecast an ECB rate cut next week with a probability of 95%. Analysts at ING continue to see downside risk for the euro since the EUR-USD two-year swap spread has reached 130bps which they believe is consistent with an exchange rate below the 1.09 level, and as Middle East tensions can drag the euro down as the currency is pro-cyclical and oil-sensitive. Today the price of Brent oil declined slightly (-0.6%) to $78.9 per barrel (WTI -0.4% at $75.4 per barrel).





Source: Bloomberg and IMF calculations

Yesterday, the French government presented the 2025 budget that aims to cut spending by €60.6bn and increase taxes to reduce the deficit from 6.1% of GDP in 2024 to 5% in 2025, and down to 2.8% by 2029. The government assumes a fiscal tightening of 1.3% of GDP next year (excluding interest payments) followed by an average tightening of 0.7% per year over 2026–2029, and the plan foresees increased issuance of government bonds in 2025 to €300bn, in line with expectations. Analysts at JP Morgan have a constructive view on the proposal presented yesterday as they see limited incentives for the opposition National Rally party to vote the government down in the upcoming discussions parliament in the next weeks as it may then risk having to take responsibility for even tougher fiscal measures later. President Macron has a maximum of 15 days to sign the bill, so the proposal must be approved by December 16 for Macron to sign it in time to be effective in 2025. Fitch, which downgraded France last year, may issue a new assessment later today, followed by Moody's on Oct. 25 and S&P in November. French spreads to bunds held steady.



Emerging Markets

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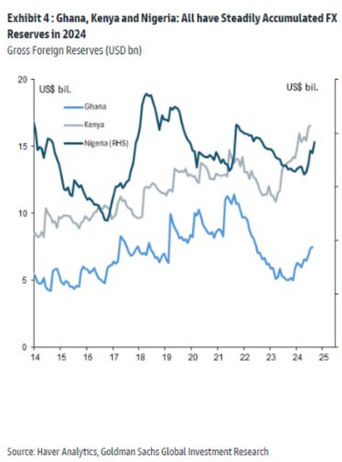
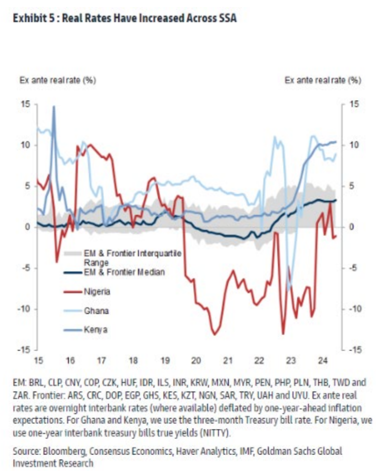
EMEA equities were mostly trading higher while currencies were mostly strengthening in early morning trade. On the monetary policy front, the National Bank of Kazakhstan left its policy rate unchanged at 14.5%. **Most Asian markets were lower, with continued volatility in China where stocks lost ground again with a 2.8% decline.** Currencies were weaker. **Latin America had a positive session, with stocks in both Brazil and Mexico posting gains.** Currencies were generally stronger against the dollar. However, JP Morgan reversed its long-standing bullish stance on the Mexican peso, citing risks from an 'unpredictable' U.S. presidential election.

Sub-Saharan Africa

Analysts argue that FX reserve accumulation and resulting FX stability creates space for further monetary easing in Ghana and Kenya but think continued policy tightening is needed in Nigeria. Goldman Sachs analysts note that countries in Sub-Saharan Africa are generally experiencing easing inflation, a stabilization in foreign exchange rates and an accumulation of foreign exchange reserves. This follows after external liquidity and currencies across the region faced pressures in 2022, leading to a loss in market access. Against this backdrop central banks, such as in Ghana and Kenya, have been able to cut interest rates—at its most recent policy meeting the central bank of Ghana cut its policy rate by 200ps and over the past two meetings Kenya's policy rates was lowered by 100bps. The analysts expect continued front-loading of policy rate cuts in Kenya given the external backdrop, below-target inflation, a strong currency, and the increase in FX reserves. In Ghana, the analysts expect a further 100bps of easing per upcoming meeting but note two-sided risks to this forecast as FX stability is more recent and

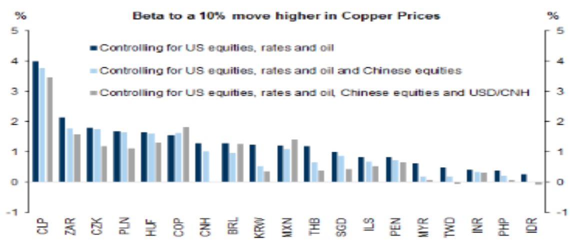




also tentative as a result of election-related fiscal risk and high inflation. However, in Nigeria, with inflation at around 30% y/y and negative ex ante market rates, the analysts think continued policy tightening is required to restore monetary policy credibility and support the Nigerian Naira.

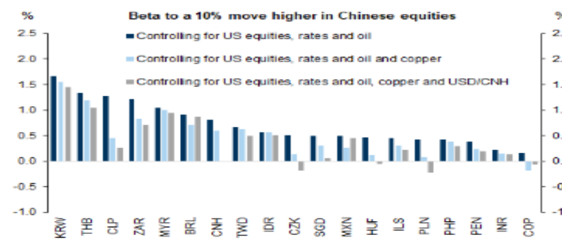
China

China impacts other emerging market currencies through commodity and equity prices. Among EM currencies, Goldman Sachs (GS) analysts find that the Chilean peso and South African rand are the most sensitive to higher copper prices, which are often seen as closely linked to Chinese demand. GS analysts also estimated that over the last two years, currencies in Korea, Thailand, Chile, Malaysia, and South Africa have tended to be the most sensitive to movements in Chinese equities. The beta to a 10% move in Chinese stocks has been between 1–2%. Conversely, currencies in the Philippines, Peru, India, and Colombia have had limited sensitivity to Chinese stocks, especially when controlling for movements in other assets classes. However, thus far, with Chinese equities gaining around 20% since late September, most EM currencies have depreciated amid a nearly 40 bp upwards move in US Treasury yields. Meanwhile, investors are eagerly looking ahead to Saturday when the Ministry of Finance will announce further details on fiscal stimulus plans.



Predicted move in each currency versus USD for a 10% move higher in copper prices. All specifications control additionally for changes in US cyclical vs defensive equities, US 10-year real yields and oil prices and are estimated over the last two years

Source: Bloomberg, Goldman Sachs Global Investment Research

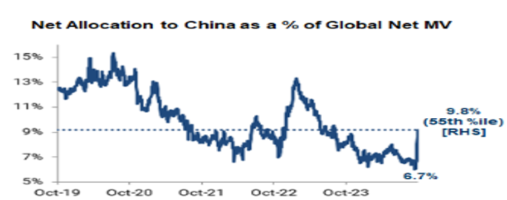


Predicted move in each currency versus USD for a 10% move higher in MSCI China. All specifications control additionally for changes in US cyclical vs defensive equities, US 10-year real yields and oil prices and are estimated over the last two years.

Source: Bloomberg, Goldman Sachs Global Investment Research

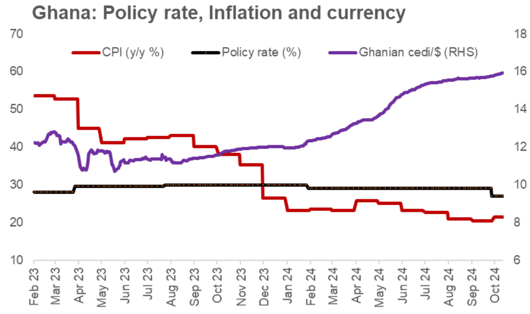
Chinese equity volatility has risen to the highest level since 2016 amid investor optimism and rapid shifts in investor positioning alongside lingering uncertainty over the extent of stimulus packages. Market volatility has been extremely high, with the average move on the CSI 300 reaching 4.6% in absolute terms over the last ten trading sessions. According to Goldman Sachs data, hedge fund net allocation has jumped from 6.7% to 9.8% (55th percentile historically) in a matter of weeks. Conversely, however, hedge funds unwound their long positions at close to a record daily pace on Tuesday following a lack of detail on stimulus efforts, according to Bloomberg and Goldman Sachs. Recent data on account openings, trading volumes, and margin balances also suggests rapidly growing enthusiasm from onshore investors, albeit from low levels.

Exhibit 6 : Hedge funds have increased net China exposure but remain below past levels



Source: Goldman Sachs FICC and Equities

Ghana

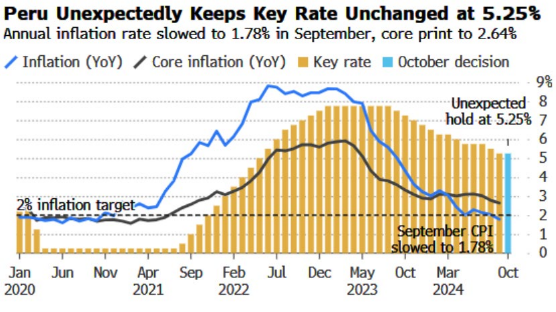


Source: Bloomberg and IMF calculations

Fitch assigns a CCC+ rating to Ghana's new Eurobonds, and upgrades Ghana's long-term local currency rating to CCC+ from CCC. Ghana successfully concluded a debt exchange for its 15 outstanding non-performing Eurobonds, including the International Development Association's partially guaranteed notes. The 15 Eurobonds were exchanged for five new bonds with the distribution to eligible holders completed yesterday. Fitch notes that the CCC+ rating on the new Eurobonds reflects the agency's assessment of the country's expected credit profile following the debt restructuring, with fiscal consolidation reducing debt levels while liquidity risk remains elevated as interest spending relative to revenue remains high. Fitch also noted that the upgrade of Ghana's long-term local currency rating to CCC+ reflects its increased optimism about the country's ability to avoid further defaults on its local currency debt given after the Eurobond restructuring, which is seen to enhance Ghana's access to concessional international financing. Based on Bloomberg data, the Ghanian cedi is now roughly 0.7% weaker than at the start of the month and about 24% weaker YTD.

Peru

Peru unexpectedly held its benchmark rate steady at 5.25%, defying market expectations even as inflation cooled to 1.78% y/y in September. Of the twelve analysts surveyed by Bloomberg, only one had anticipated this outcome, with the majority expecting a 25 bps cut. The central bank statement noted that inflation may tick up slightly in 4Q due to base effects. The Peruvian sol weakned by the end of the day, while equities were up (+1.6%).



Source: National statistics agency, central bank, Bloomberg

This monitor is prepared under the guidance of Jason Wu (Assistant Director), Charles Cohen (Advisor), Nassira Abbas (Deputy Division Chief), Caio Ferreira (Deputy Division Chief) and Sheheryar Malik (Deputy Division Chief). Fabio Cortes (Senior Economist), Sanjay Hazarika (Senior Financial Sector Expert), Esti Kemp (Financial Sector Expert-London Representative), Johannes S Kramer (Senior Financial Sector Expert-New York Representative), Benjamin Mosk (Senior Financial Sector Expert), Patrick Schneider (Financial Sector Expert), and Jeff Williams (Senior Financial Sector Expert) are the lead editors of this monitor. The contributors are Mustafa Oguz Caylan (Research Officer), Yingyuan Chen (Financial Sector Expert), Andrew Ferrante (Research Assistant), Deepali Gautam (Senior Research Officer), Harrison Kraus (Research Assistant), Yiran Li (Research Assistant), Xiang-Li Lim (Financial Sector Expert), Corrado Macchiarelli (Economist), Kleopatra Nikolaou (Senior Financial Sector Expert), Natalia Novikova (IMF Resident Representative in Singapore), Sonal Patel (Senior Financial Sector Expert-London Representative), Silvia Ramirez (Senior Financial Sector Expert), Francesco de Rossi (Senior Financial Sector Expert-London Representative), Dmitry Yakovlev (Senior Research Officer), and Akihiko Yokoyama (Senior Financial Sector Expert). Javier Chang (Senior Administrative Coordinator), Lauren Kao (Administrative Coordinator), and Srujana Sammeta (Administrative Coordinator) are responsible for the word processing and production of this monitor.

Global Financial Indicators

	Level		Change				
10/11/24 7:51 AM	**Last 12m**	**Latest**	**1 Day**	**7 Days**	**30 Days**	**12 M**	**YTD**
Equities					%		%
United States		5780	-0.2	1	4	32	21
Europe		4973	0.1	0	4	18	10
Japan		39606	0.6	3	11	24	18
China		3887	-2.8	5	23	6	13
Asia Ex Japan		79	0.1	-1	11	22	19
Emerging Markets		46	0.2	-1	9	20	14
Interest Rates					basis points		
US 10y Yield		4.10	3.8	13	44	-46	22
Germany 10y Yield		2.30	4.0	9	18	-42	27
Japan 10y Yield		0.95	-0.8	7	10	18	34
UK 10y Yield		4.24	3.2	11	48	-9	71
Credit Spreads					basis points		
US Investment Grade		122	0.4	-5	-17	-31	-12
US High Yield		346	5.9	-7	-50	-102	-40
Exchange Rates					%		
USD/Majors		102.95	0.0	0	1	-3	2
EUR/USD		1.09	0.0	0	-1	3	-1
USD/JPY		149.0	0.3	0	5	0	6
EM/USD		45.6	0.1	0	0	-2	-5
Commodities					%		
Brent Crude Oil ($/barrel)		78.7	-0.9	1	12	-1	5
Industrials Metals (index)		154	1.4	-2	10	12	8
Agriculture (index)		57	0.6	-1	5	-9	-8
Implied Volatility					%		
VIX Index (%, change in pp)		20.9	0.0	1.7	3.3	4.9	8.5
Global FX Volatility		8.6	0.0	-0.1	0.1	0.4	0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		94	1.5	-1	-9	-56	-10
Italy		130	2.5	0	-13	-65	-37
Portugal		51	1.3	-2	-11	-22	-12
Spain		75	1.7	0	-7	-35	-22

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

Emerging Market Financial Indicators

Last updated: 10/11/2024 7:53 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		7.07	0.1	-0.7	0.7	3	0		2.0	0.5	-4	9	-81	-56
Indonesia		15578	0.6	-0.6	-1	1	-1		6.7	-0.8	3	9	-11	20
India		84	-0.1	-0.1	0	-1	-1		7.1	-1.0	5	21	(62.9)	-12
Philippines		57	0.2	-1.6	-2	-1	-3		4.7	-9.9	-6	-35	-105	-89
Thailand		33	0.3	-0.1	1	9	3		2.5	-3.0	0	12	-87	-22
Malaysia		4.29	0.1	-1.6	1	10	7		3.8	-0.5	5	5	-26	5
Argentina		975	0.0	-0.3	-2	-64	-17		40.7	6.5	39	203	-6775	-4565
Brazil		5.58	0.2	-1.9	1	-9	-13		12.4	3.3	15	68	63	198
Chile		926	0.4	-0.2	2	0	-5		4.9	1.5	6	29	-59	3
Colombia		4202	0.8	-0.3	2	1	-8		8.0	0.0	11	53	-134	32
Mexico		19.42	0.2	-0.7	2	-8	-13		9.1	0.0	24	34	-21	69
Peru		3.8	-0.1	-1.1	1	1	-2		6.5	-2.3	######	9	-103	-18
Uruguay		42	-0.2	0.0	-3	-4	-7		9.5	4.1	9	-26	-41	0
Hungary		367	0.0	-0.3	-2	-1	-5		6.2	0.0	-3	36	-96	39
Poland		3.92	0.3	0.2	-1	9	0		4.9	6.5	15	51	2	41
Romania		4.6	0.0	-0.3	-1	3	-1		6.6	1.9	9	3	-37	35
Russia		96.0	0.9	-0.9	-5	2	-7							
South Africa		17.5	0.4	0.1	2	8	5		8.7	0.0	5	24	-104	-39
Türkiye		34.29	-0.3	-0.1	-1	-19	-14		29.4	0.0	-35	70	231	261
US (DXY; 5y UST)		103	0.0	0.4	1	-3	2		3.92	3.4	12	48	-66	7

	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		3887	-2.8	5	23	6	13		116	-6	-11	-60	-42
Indonesia		7521	0.5	0	-4	9	3		89	-4	-29	-44	-7
India		81381	-0.3	0	-2	23	13		96	-7	-18	-51	-20
Philippines		7310	-1.4	-2	4	17	13		75	-4	-27	-34	-5
Thailand		1470	0.1	2	3	1	4		0	0	0	0	0
Malaysia		1634	-0.5	0	-1	13	12		72	-5	-20	-26	-13
Argentina		1782989	0.6	2	1	149	92		1128	-141	-321	-1500	-785
Brazil		130353	0.3	-1	-3	11	-3		210	6	-32	-15	-5
Chile		6579	0.6	2	4	14	6		112	3	-20	-26	-13
Colombia		1310	0.7	0	0	18	10		311	4	-28	-48	40
Mexico		52391	1.0	1	2	4	-9		299	4	-45	-72	-35
Peru		30277	1.6	1	7	36	17		140	10	-17	-18	-4
Hungary		74312	0.0	1	3	32	23		145	-3	-25	-60	-4
Poland		83444	1.0	2	4	24	6		106	0	-15	-28	9
Romania		17694	0.4	1	2	25	15		188	-4	-31	-32	-13
South Africa		85947	0.6	0	6	16	12		263	-11	-57	-123	-45
Türkiye		9067	1.1	0	-4	9	21		273	-11	-46	-116	-41
EM total		46	-0.5	-1	9	20	14		386	-4	-34	-25	41

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

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