GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

TUESDAY, OCTOBER 15, 2024
LEAD EDITOR: JEFF WILLIAMS

- **U.S. inflation risks may be on the rise again** (link)
- **Weaker euro finds support in declining oil prices** (link)
- **Yen weakness has raised market expectations for possible BOJ intervention** (link)
- **Chinese equity market losses deepen as investors debate market rally durability** (link)
- **Hawkish hold expected from the Central Bank of Türkiye (TCMB) on Thursday** (link)

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Chinese markets fall as investors await more detail on support measures

Chinese markets fell solidly into the red as analysts remain cautious on the outlook for government support. The CSI 300 declined 2.7%, more than wiping out yesterday's near 2% gain, which some market participants believe may have been supported by official intervention. Market sentiment toward the weekend announcement by the Ministry of Finance has been mixed with some analysts feeling that the proposed package does not do enough to stimulate growth. After the markets closed Tuesday, it was announced that another briefing will be held on Thursday, including officials from the housing ministry, finance ministry, and the central bank. Aside from the support measures in China, investors this week will also closely watch Thursday's ECB announcement. Markets have nearly fully priced a 25 bp rate cut at the meeting, but will pay attention to any guidance that may alter expectations for the future path, which currently sees a sustained series of additional cuts at each of the next few meetings.

Key Global Financial Indicators

Last updated: 10/15/24 8:33 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5860	0.8	3	4	35	23
Eurostoxx 50		5026	-0.3	2	4	22	11
Nikkei 225		39911	0.8	1	9	26	19
MSCI EM		46	-0.4	-3	8	22	15
Yields and Spreads					bps		
US 10y Yield		4.06	-4.1	5	41	-55	18
Germany 10y Yield		2.24	-3.4	0	9	-50	22
EMBIG Sovereign Spread		351	-2	1	-42	-97	-32
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.4	-0.3	-1	-1	-2	-6
Dollar index, (+) = $ appreciation		103.1	-0.2	1	2	-3	2
Brent Crude Oil ($/barrel)		74.5	-3.8	-3	4	-18	-3
VIX Index (%, change in pp)		19.7	0.0	-2	3	0	7

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

Mature Markets

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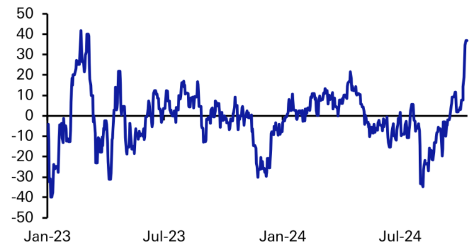
United States

U.S. inflation risks may be on the rise again. Over the past few weeks, the five-year inflation swap rate increased by almost 40 bp to 2.50%, the fastest pace since early 2023. This perception of rising inflation risks has contributed to higher bond yields, with the 10-year Treasury yield climbing almost 50 bp to 4.10%, whilst gold prices have also hit new highs. Analysts at Deutsche Bank attribute the increasing inflation risks to several factors, including greater-than-expected monetary easing, robust U.S. growth prospect and labor market conditions, a higher-than-expected CPI report last week, and rising commodity prices due to heightened geopolitical tensions in the Middle East and the stimulus announcements from China.

Figure 2: Five-week change in US 5yr inflation swap (bps)



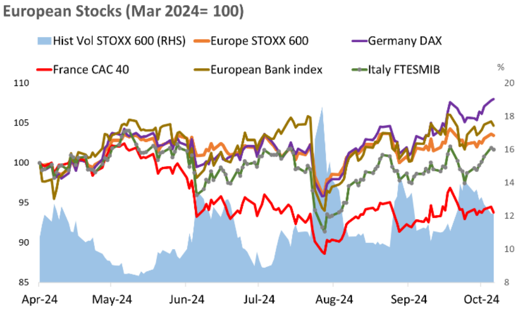
Source: Bloomberg Finance LP, Deutsche Bank

Is the Fed too data-dependent? After several false alarms earlier this year when markets priced in a dovish pivot by the FOMC, the committee finally delivered a larger-than-expected rate cut in September, only to find out that bond yields rose sharply since then, and both the latest labor market and CPI data came out stronger than expected. Investors are now pricing in fewer rate cuts than before. As the Wall Street Journal argues, this may reflect the increased volatility of economic data, confusing investors into a series of rapid reversals. If the FOMC's "data dependency" approach focuses too much on the latest data releases and extrapolates short-term economic fluctuations, it could cause significant swings in market expectations of future interest rates, making bond markets unnecessarily volatile and exacerbating what psychologists call "recent biases" in the market. The Wall Street Journal argues the Fed should look beyond noisy month-to-month data and focus on the big picture, providing markets with clearer insights on the pace and extent of future rate cuts.

Europe

European equities edged slightly lower this morning, with the Stoxx 600 index little changed (-0.1%) dragged by losses in the energy (-3.3%), materials (-1%) and banking (-0.5%) sectors, while the utilities (+0.7%) and communication (+0.6%) sectors gained. Stock markets were mixed across large European countries, with France underperforming (CAC 40 index –0.8%) after Fitch revised its rating outlook to negative las Friday.

European Stocks (Mar 2024= 100)



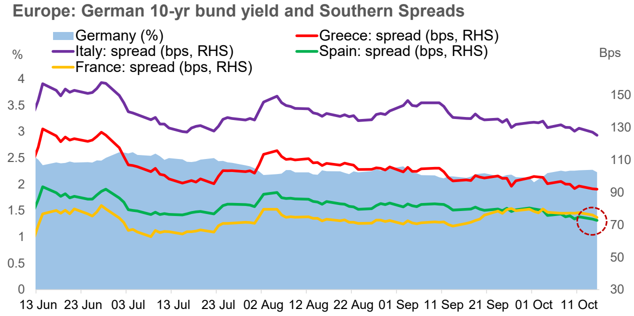
Source: Bloomberg and IMF calculations

The euro continued to edge lower against the dollar yesterday and was little changed this morning, as rising risk aversion, driven by escalating geopolitical tensions in the Middle East and conflicts between China and Taiwan weigh on the currency while supporting the US dollar as a safe haven. Analysts at ING however see the euro as potentially supported in the coming days by the dollar possibly falling with the drop of oil prices triggered yesterday by news that Israel would not be planning to attack Iran's oil facilities and falling demand from China. Looking ahead, ING believes that, unless the ECB surprises with a hold or out-of-consensus guidance on Thursday, the direction of the euro will be set by US events as analysts note that the widening of EUR-USD short term rates differentials has already prompted a shift in investor strategy as data show net-long positions in the euro declined from 13.5% to 5.9% of open interest since early September.

The results of the ZEW (Leibniz Centre for European Economic Research) survey released today showed that expectations of economic growth by finance professionals improved in October more than expected in Germany, as the sentiment index printed at 13.1pts (vs est.10, from 3.6pts in September) on prospects of faster ECB rate cuts. The survey returned a similar outcome for the Eurozone, where the index rose to 20.1pts in October from 9.3pts in September. Eurozone industrial production printed today in line with expectations in August at 1.8%m/m from a decline of -0.3%m/m in July. The production boost was driven by Germany, which saw production increase by 3.3%m/m in August, erasing losses from the 3% decline in July. Analysts at ING continue to see the outlook for the Eurozone's industry affected by increased competition from China, volatile energy costs, labor shortages and supply chain uncertainties, which lead them to continue to expect a recovery in the industrial sector only from 2025. Today's result from the ECB's Q3 Bank Lending Survey saw eurozone banks reporting a return to growth in corporate loan demand, driven by a falling level of interest rates alongside firmer investment plans, while credit standards for companies were unchanged on the quarter not showing tightening for the first time since Q3 2021. Analysts at HSBC see today's results as largely expected and continue to see the ECB cutting interest rates at each of the next five policy meetings starting from Thursday, to take its benchmark deposit rate to 2.25%.

European government bond yields edged lower (by about 4bp) across tenors today. Sovereign bond yield spreads of Italy and France declined, with the 10y BTP-Bund spread at 125bp (-2bp) and the 10y OAT-Bund spread at 74 bp (-2bp). Last Friday, Fitch maintained France's sovereign credit rating at AA- but revised its outlook to negative, in a move that was somewhat unexpected as the government had presented its 2025 draft budget just a day earlier. Fitch cited risks in implementing the budget due to the government's lack of a majority given the fragmented composition of the parliament; analysts believe that concessions to opposition parties will likely reduce fiscal consolidation efforts, preventing the government from reaching the 2025 deficit target and from reducing deficit below 3% of GDP by 2029.

Europe: German 10-yr bund yield and Southern Spreads



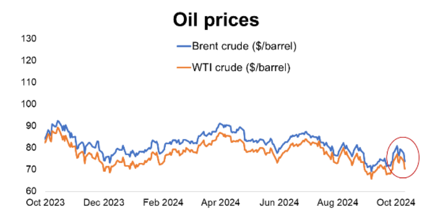
Source: Bloomberg and IMF calculations

Japan

Recent yen weakness has raised market expectations for possible BOJ intervention. Volatility in the yen has increased in recent sessions with a widening US-Japan interest rate differential weighing on the yen. Interest rate differentials between the US and Japan are expected to remain wide; the spread between the 2-year JGB and comparable Treasuries has widened from 315bp in mid-September to 350bp currently as market participants scale back expectations for aggressive Fed rate cuts while the probability of BOJ rate hikes has diminished. On the day, the yen posted modest gains following a volatile session. The prospect of further depreciation in the currency is raising expectations for possible BOJ intervention to support the yen as it approaches the 150 per dollar level, or the 200-day moving average of 151.25 yen per dollar. Data from the US CFTC indicated that net long positions of leveraged funds in the yen retreated for a second week (as of October 8, 2024), suggesting falling expectations for the yen to strengthen in the near term. Still, persistent yen weakness has raised the possibility that a rate hike could come in December, particularly if imported inflation push domestic inflation above the BOJ's 2% target. The breakeven inflation rate for 10-year CPI-linked JGBs rose to 1.34%, up 13bp since the start of the year. Current market consensus is for the BOJ to refrain from raising rates until early next year.

Commodities

Oil prices fell by about 5% yesterday, erasing last week's gains, as OPEC cut its oil demand growth forecasts for the third month in a row to a new estimated increase of 1.9m barrels per day in 2024 (106k barrels less than previously forecast), and China's September oil imports declined by 7.4% from August to 45.5m tons. Oil prices extended losses after news reported that Israel is not targeting Iran's oil or nuclear facilities. **Today the price of the Brent continued to edge lower (-4.3%) to $73.85 per barrel** (WTI -5% trading at $70.15 per barrel).



Source: Bloomberg and IMF calculations

Emerging Markets

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Asian equities and currencies were mixed Tuesday. Shares in China and Hong Kong SAR extended recent losses as investors questioned the sustainability of the recent rally while bourses elsewhere posted modest gains (Japan and Indonesia, +0.6% each). While the yen traded in a volatile session (+0.4%), other regional currencies fell against the dollar, with the offshore RMB underperforming (-0.5%). The MAS met on Monday and left its FX policy stance unchanged, in line with expectations. Analysts noted that the MAS policy statement, which noted risks towards slower economic growth, raised the probability of an ease in its FX stance at the next meeting in January 2025. **EMEA equities and currencies were mixed while local currency bond yields were lower.** South African equities underperformed (-0.9%) while those in Türkiye rallied (+1.5%). CEE currencies were marginally stronger against the euro. On the ratings front Moody's on Friday upgraded Ghana's long-term local and foreign currency issuer ratings to Caa2 from Caa3 and Ca, respectively, and changed the outlook to positive from stable. Also, S&P affirmed Ghana's long-term foreign currency debt rating at SD, with Ghana's long-term local currency debt rating affirmed at CCC+, and the outlook on the long-term local currency rating stable. Elsewhere on the ratings front, S&P kept Romania's rating at BBB- and outlook at stable. On the data front Nigeria's inflation surprised marginally on the upside in September (32.7%y/y versus expected 32.4% from 32.2%). **LatAm markets were mixed on Monday**. In Brazil, where analysts continue to revise up their policy rates expectations on a robust economic outlook, both the currency (0.3%) and equities (+0.8%) gained. The country's economic activity in Aug grew by 0.2% m/m, beating market expectations. Meanwhile, Mexico markets were weaker, with the Mexican peso (-0.5%) underperforming its EM peers. Notably, the Chilean peso also depreciated (-0.6%), breaking its two-day winning streak. The country's central bank is widely expected to cut its policy rate from 5.5% to 5.25% this Thursday.

EM fund flows

Fund inflows intensified into EM to $10.6 bn last week as equities attracted their largest weekly flows since Oct 2000. EM equity fund flows accelerated for the third consecutive week, reaching $9.8 bn, driven by flows into ETFs ($10.1 bn). On a regional level, equities in EM Asia saw massive inflows ($9.2bn), but these were not uniformly distributed among constituent counties. Sizable withdrawals were experienced from India (a record high -$5 bn) and Taiwan (-1 bn). Analysts note that some of these could have been diverted into China. Bond funds also saw higher inflows ($0.8 bn). While hard currency bond fund flows remained flat at $0.4 bn, local currency bond fund grew to $0.4bn from about $0.2 bn the week before. Notably, flows into China focused bond funds dried up following the positive flows in the week before. Overall, YTD fund flows into EM stand at $14.9 bn.

Figure 1: Weekly cross-asset flows

USD billion

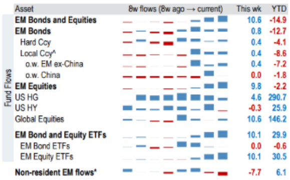
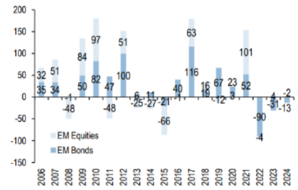


Figure 2: EM bond and equity fund flows

USD billion



*High-frequency non-resident EM portfolio flow data where available. ^Local ccy split is retail only. *Source for all charts and data in this report: J.P. Morgan, EPFR Global, Bloomberg Finance L.P.*

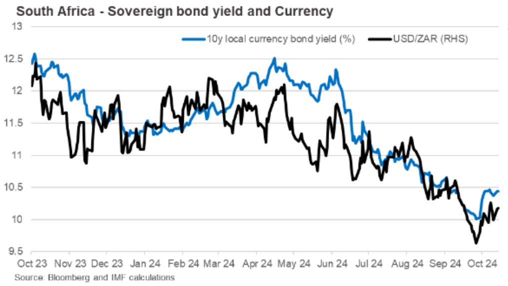
China

Chinese equity losses deepened as investors debate on the durability of the recent market rally. The CSI 300 Index fell 2.7%, fully erasing its gains garnered in October. In Hong Kong SAR, Chinese shares listed in the HKEx fell by more than 3% while the Hang Seng lost 4.3%. Recent losses have underscored divided market sentiment. Some, including Morgan Stanley and Wells Fargo, suggested caution, pointing to a lack of policy clarity to support growth, and, by some estimates, a stimulus package that is well short of expectations. Others, including UBS, are more optimistic. They noted heighted investor interest, including sharp increases in new account openings, which could support market gains. The RMB also weakened, falling as much as 0.6% to 7.1343 per dollar in the offshore market, the weakest level in about a month before partially reversing losses. Currencies in Australia, South Korea and New Zealand, seen as affected by sentiment regarding China's outlook, weakened by 0.1 to 0.2% on the day. Economic data released on Monday highlighted persistent economic challenges. In September, export growth slowed to 2.4%, y/y, the lowest since May, despite record-high exports of cars and ships. Loan expansion also fell short of expectations, indicating continued weak domestic demand.

Over the weekend, **the Ministry of Finance announced several measures to support the economy**, including a one-off, large-scale increase in the debt limit to swap out local government debt, and, using special muni bonds to buy unsold homes and unused land as well as issuing special CGBs to replenish the capital of the six largest state banks. Market reception to the announcement was mixed. Analysts noted that the proposed package focused more on risk resolution, but little on growth stimulus. Others noted that the swap program could help local governments to refocus on economic growth, including property de-stocking and investing in strategic new industries. That said, implementation of these new initiatives, including additional sovereign bond issuance requires approval from the National People's Congress (NPC). The authorities are likely to disclose concrete details on additional fiscal stimulus only after the NPC's standing committee meets later this month.

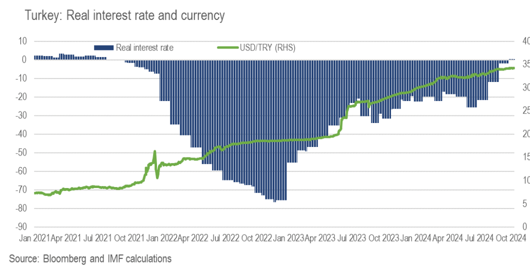
South Africa

Analysts remain constructive on South African Government bonds. Goldman Sachs analysts see the local yield curve steepness, high long-dated real yields in South Africa, and the wide asset swap spread as standing out in an international comparison. The analysts argue that these metrics are reflective of a fiscal credibility gap with market expectations for a return of fiscal slippage, despite significant recent fiscal outperformance relative to market expectations. The analysts expect the National Treasury to either achieve or even slightly outperform its fiscal targets, and thus remain constructive on South African government bonds (SAGBs), despite the rally that followed the elections. Since the May 29 elections the 10y government bond yield has declined from around 12.3% to about 10.4%. BNP analysts also note that over the past few months SAGB supply has been well absorbed and while foreign exposure in SAGBs has increased since May, the analysts see room for more exposure.



Türkiye

Hawkish hold expected from the Central Bank of Türkiye (TCMB) on Thursday. While headline inflation eased to 49.4%y/y in September, thus turning the real rate positive for the first time since July 2021, from a monthly perspective inflation surprised on the upside and accelerated to 3.0%m/m in September (from 2.5%m/m in August). At the policy meeting this week, consensus expect the policy rate to remain unchanged at 50%, with contacts expecting a hawkish tone from the central bank. Standard chartered analysts, for example, expect policymakers to look past continued progress on demand rebalancing, external-sector stability and FX reserves buffers and instead focus on higher risks of a possible pick-up in price pressures, driven by rising global economic and political uncertainty. The analysts still expect the rate easing cycle to start in November, but now see the resurgence of domestic price pressures and/or spillovers from higher oil prices as risks to their call. Several other analysts have pushed out their expectations for when rate cuts would start from November this year to January 2025. Deutsche Bank analysts, for example, now expect the central bank to start its easing cycle in January 2025, but still expect the easing cycle to start with a 250bp rate cut. The analysts expect a gradual but persistent cutting cycle with the policy rate reaching 35% at the end of Q2 2025 and 27.5% at end-2025.



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

10/15/24 8:33 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,864	0.8	2.0	4.2	35.5	23
Europe		5,026	-0.3	1.6	3.8	21.5	11
Japan		39,911	0.8	1.5	9.1	26.1	19
China		3,856	-2.7	-9.4	22.1	6.3	12
Asia Ex Japan		79	-0.6	-3.7	9.6	24.0	19
Emerging Markets		46	-0.4	-2.5	7.8	21.9	15
Interest Rates					basis points		
US 10y Yield		4.1	-4	5	41	-55	18
Germany 10y Yield		2.2	-3	0	9	-50	22
Japan 10y Yield		1.0	2	5	13	21	36
UK 10y Yield		4.2	-5	1	43	-19	66
Credit Spreads					basis points		
US Investment Grade		121	0	-3	-14	-33	-13
US High Yield		343	0	-1	-41	-114	-42
Exchange Rates					%		
USD/Majors		103.1	-0.2	0.6	2.0	-3.3	2
EUR/USD		1.1	0.0	-0.7	-2.0	3.3	-1
USD/JPY		149.1	-0.4	0.6	6.1	-0.2	6
EM/USD		45.4	-0.3	-0.7	-1.3	-2.1	-6
Commodities					%		
Brent Crude Oil ($/barrel)		74.5	-3.8	-3.4	4.9	-9.9	-1
Industrials Metals (index)		149.2	-1.4	-1.9	3.6	9.4	5
Agriculture (index)		56.1	-0.4	-1.4	1.1	-13.3	-10
Implied Volatility					%		
VIX Index (%, change in pp)		19.7	0.0	-1.7	3.1	0.4	7.3
Global FX Volatility		8.5	0.0	-0.3	0.0	0.3	0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		92	-1	-4	-6	-65	-12
Italy		125	-2	-5	-11	-78	-42
Portugal		48	-2	-3	-11	-29	-15
Spain		73	-1	-2	-6	-41	-24

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

Emerging Market Financial Indicators

Last updated: 10/15/2024 8:34 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		7.11	-0.3	-0.7	-0.2	2.8	-0.2		1.9	-3	-10	7	-83	-60
Indonesia		15589	-0.1	0.4	-1.2	0.8	-1.2		6.7	2	-5	12	-9	22
India		84	0.0	-0.1	-0.2	-0.9	-1.0		7.1	-4	-2	22	-61	-15
Philippines		58	-0.7	-1.6	-3.4	-1.8	-4.3		4.8	-5	1	-26	-98	-83
Thailand		33	-0.1	0.7	-0.2	8.8	2.8		2.5	1	-4	17	-88	-21
Malaysia		4.31	-0.3	-0.5	-0.2	9.9	6.6		3.8	-2	1	6	-26	5
Argentina		980	-0.5	-0.5	-2.0	-64.3	-17.5		40.4	-37	5	-1	-6470	-4602
Brazil		5.61	-0.3	-1.4	-1.8	-10.2	-13.5		12.3	-11	19	41	49	190
Chile		932	-0.4	0.1	-1.0	1.5	-5.5		5.0	-2	15	43	-78	6
Colombia		4205	0.1	0.2	0.8	0.8	-7.8		7.9	-7	13	51	-133	29
Mexico		19.55	-0.9	-1.0	-1.6	-8.5	-13.2		9.1	0	9	40	-45	60
Peru		3.8	-0.1	-0.4	0.5	2.7	-1.4		6.4	#######	-9	1	-123	-26
Uruguay		41	0.1	-0.4	-1.3	-3.9	-6.2		9.6	0	20	-36	-19	7
Hungary		367	0.1	-0.9	-3.5	-0.4	-5.4		6.3	-10	8	55	-93	54
Poland		3.94	0.0	-0.4	-2.4	7.1	0.0		4.9	-7	9	48	-6	40
Romania		4.6	0.0	-0.6	-2.0	3.1	-1.2		6.6	1	3	0	-30	37
Russia		97.3	-1.7	-0.5	-6.1	0.2	-8.0							
South Africa		17.6	-0.1	-0.1	0.2	6.7	4.4		8.8	-2	6	42	-115	-31
Türkiye		34.26	0.0	0.0	-0.7	-18.7	-13.8		29.8	0	-4	103	254	306
US (DXY; 5y UST)		103	-0.2	0.6	2.0	-3.3	1.8		3.88	-2	3	45	-76	3

	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		3,856	-2.7	-9.4	22.1	6.3	12.4		116	-2	-10	-58	-42
Indonesia		7,627	0.9	0.9	-2.4	10.6	4.9		88	3	-26	-46	-8
India		81,820	-0.2	0.2	-1.4	23.7	13.3		95	-4	-20	-51	-21
Philippines		7,456	1.8	-1.1	5.0	20.3	15.6		74	2	-24	-35	-6
Thailand		1,465	-0.3	0.9	2.1	2.7	3.5		0	0	0	0	0
Malaysia		1,642	0.3	0.4	-0.6	14.1	12.9		74	-1	-16	-24	-11
Argentina		1,804,415	1.2	2.7	-0.7	137.2	94.1		1111	-133	-336	-1420	-802
Brazil		131,005	0.8	-0.8	-2.9	13.2	-2.4		210	8	-29	-13	-5
Chile		6,572	0.0	1.2	3.5	13.7	6.0		110	3	-21	-32	-15
Colombia		1,326	1.3	1.3	1.1	18.8	11.0		310	8	-26	-47	39
Mexico		52,001	-0.8	-0.1	0.0	5.3	-9.4		297	10	-39	-74	-37
Peru		30,591	0.5	1.1	5.7	38.1	17.8		138	7	-15	-22	-6
Hungary		74,615	0.2	0.6	2.2	33.4	23.1		143	-2	-24	-62	-6
Poland		83,269	0.0	1.8	1.2	24.2	6.1		104	0	-13	-32	7
Romania		17,553	-0.2	0.2	0.9	22.9	14.2		186	-2	-30	-34	-15
South Africa		85,941	-0.5	0.5	4.8	17.9	11.8		267	1	-49	-120	-41
Türkiye		8,809	1.3	-2.6	-9.1	8.6	17.9		271	-4	-43	-128	-43
EM total		46	-1.3	-2.5	7.8	21.9	14.8		384	-1	-33	-25	39

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

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