GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

WEDNESDAY, OCTOBER 16, 2024

LEAD EDITOR: JEFF WILLIAMS

- **US may run a larger fiscal deficit in 2026–2028 regardless of the election results** (link)
- **Consumer delinquency fears have reached their highest level since the pandemic** (link)
- **Pound weakens after UK September inflation surprises on the downside** (link)
- **The yen gained briefly amid prospects of gradual rate hikes** (link)
- **Bank of Thailand lowers policy rate in surprise move** (link)
- **Banks in China are expected to lower deposit rates in response to policy guidance** (link)

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Rate cut expectations build as UK inflation slows

The British pound is lower on the day after inflation data showed prices rising slower than expected. The report has increased expectations for BoE rate cuts. While a cut in November had already been mostly priced, pricing for future meetings has increased meaningfully. End-2024 pricing has risen to a total of 44 bp cuts from 37 bp yesterday. In China, shares of property sector firms rose over 8% on the day ahead of tomorrow's joint briefing with the housing ministry, finance ministry and central bank. Emerging market currencies are mostly gaining on the day, including the Thai baht, despite the central bank surprising markets with a 25 bp rate cut. Tech shares are steady this morning after a sharp decline yesterday following a report of weak orders of chipmaking devices by Dutch firm ASML. The report casued shares in both ASML and Nvidia to decline about 5% on Tuesday. Overall this morning, European shares are somewhat lower on weak earnings, while US equity futures are holding steady.

Key Global Financial Indicators

Last updated: 10/16/24 8:28 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
S&P 500		5815	-0.8	1	3	33	22
Eurostoxx 50		4915	-0.6	-1	2	18	9
Nikkei 225		39180	-1.8	1	8	22	17
MSCI EM		45	-2.1	-2	5	18	12
Yields and Spreads			bps				
US 10y Yield		4.01	-2.0	-6	39	-69	13
Germany 10y Yield		2.19	-3.7	-7	6	-60	16
EMBIG Sovereign Spread		351	0	-3	-34	-100	-32
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.3	0.1	-1	-2	-3	-6
Dollar index, (+) = $ appreciation		103.2	0.0	0	2	-3	2
Brent Crude Oil ($/barrel)		74.2	-0.1	-3	2	-17	-4
VIX Index (%, change in pp)		20.7	0.1	0	4	4	8

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

Mature Markets

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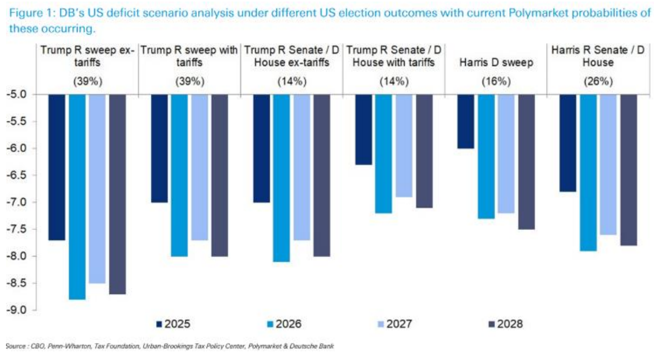
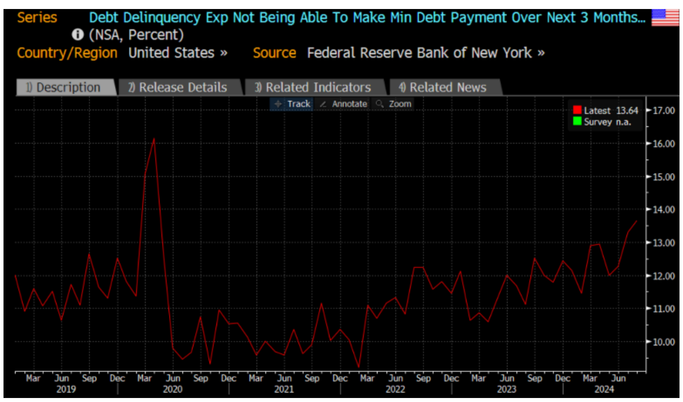
United States



U.S. may run a fiscal deficit of 7% to 9% of GDP in 2026–2028 regardless of the general election results. Analysts at Deutsche Bank recently conducted a growth and deficit analysis under various U.S. general election outcome, detailing the impacts of each presidential candidate's proposals while assuming the extension of the 2018 TCJA tax cut in all scenarios. Their results suggest that the U.S. deficit could increase from the 2023 level of 6.1% of GDP to between 7% and 9% in 2026–2028 in all assumed scenarios. The most fiscally conservative political combination would be a Trump win, a Republican Senate, and a Democrat House, with the implementation of Trump tariffs, simulated as a 10% universal tariff and 60% tariffs on China, as he has previously argued for. However, such tariffs present a significant near-term risk to inflation and growth in all cases. The highest deficits occur with Trump win and a Republican sweep of both the Senate and House, but without tariffs.

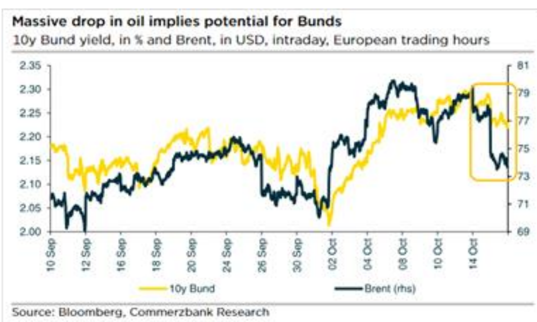


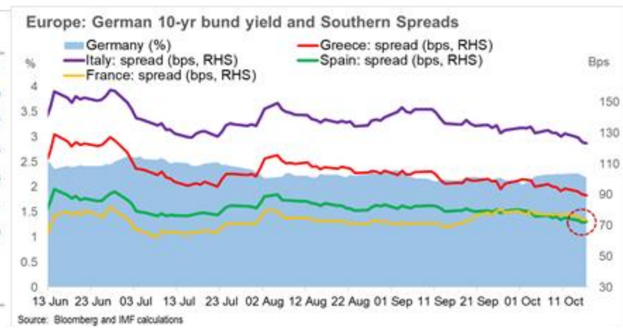
Consumer delinquency fears have reached their highest level since the pandemic outbreak. The anticipated probability of missing a minimum debt payment over the next three month among U.S. households rose to 14.2% in August, according to the New York Fed's monthly Survey of Consumer Expectations. This increase in delinquency risk coincides with a broader deterioration in perceptions of households' current financial situations, with fewer consumers reporting being better off and more reporting being worse off than a year ago. Additionally, Edmund.com reported that the number of Americans with auto loans who owe more than their vehicle values continued to increase, with more than one in five of such consumers owing more than $10,000 on their auto loans, further highlighting the financial pressure on American consumers.

Euro Area

European equities were mostly lower this morning amid weak earnings. The Stoxx 600 index edged lower by 0.4%, dragged by losses in the information technology sector (-1.1%,) with notably ASML Holding NV loosing 3.6% after its profit warning yesterday. The consumer products (-0.7%) and banking (-0.7%) sectors were also trading in the red. The energy sector (+0.5%) was retracing some of yesterday's losses. Oil prices were marginally higher this morning (brent crude +0.1% at $74.30 per barrel). The euro was little changed against the dollar. ING analysts expect the euro to stabilize around 1.09 for now, but see risks tilted towards a stronger dollar heading into the US elections. Analysts at TD bank have a bearish view on the euro as they see the current exchange level already pricing-in a cut from the ECB on Thursday and the currency is subject to macro uncertainty and risks around US elections. **Markets are pricing in roughly 25bp of easing for the ECB meeting tomorrow, with around 50bp of easing priced in by end-2024**.

European government bond yields continued to edge lower across tenors. Commerzbank analysts note that the significant decline in oil prices yesterday—with oil futures dropping by over 4%—has prompted a bid across global bond markets. The analysts see a further recovery in bunds as likely, with the ECB's anticipated rate cut tomorrow also adding to overall bullish sentiment. The 10Y Bund yield (-3bp) is trading at around 2.19%, now roughly 7bp higher than at the start of the month, while the 2y yield is at 2.18% (-2bp). Sovereign bond yield spreads of Italy and France were little changed this morning, with the 10y BTP-Bund spread at 123bp and the 10y OAT-Bund spread at 73 bp. **The Italian government last night announced its 2025 Budget Bill**, which included plans for the government to raise €3.5bn from domestic banks and insurers by postponing tax deductions in a move that will not impact on banks' profitability in a meaningful way according to analysts. Ahead of the start of the Q3 earnings release season in the next days, the shares of major Italian banks and insurance companies edged down. Analysts at HSBC continue to have a constructive view on Italy's fiscal consolidation efforts in the short term, but warn of medium-term challenges as keeping public investment above 3% of GDP in line with EU rules (and in absence of new EU funding) would require further cuts to current spending, just ahead of elections in 2027.

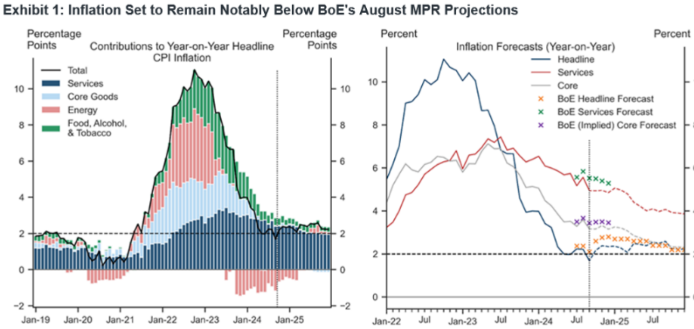




United Kingdom

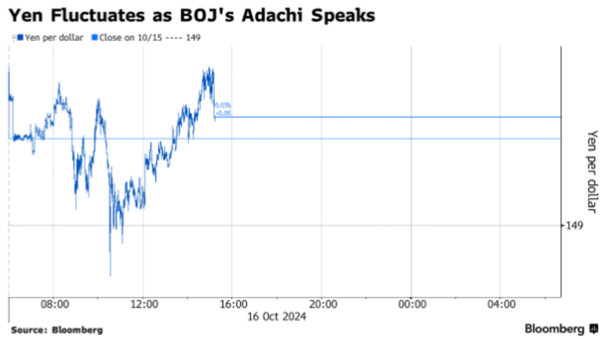
The pound weakened and gilt yields eased after September inflation data surprised on the downside. Data released this morning showed headline inflation easing to 1.7%y/y in September (versus expected 1.9% from 2.2%), with core inflation dropping to 3.2%y/y (versus expected 3.4% from 3.6%) and services inflation easing to 4.9%y/y (versus expected 5.2% from 5.6%). Analysts note that the decline in services inflation was mainly a result of a weakness in airfares but also highlight a gradual decline in underlying services inflation measures. Goldman Sachs analysts continue to expect sequential rate cuts from the BoE in 25bp increments starting from the November BoE meeting. ING analysts also argue that the data paves the way for two further BoE rate cuts this year and see the potential for the sterling to weaken further as markets increase dovish expectations. HSBC analysts, however, expect a rate cut in November but then see rates unchanged in December, arguing that additional 'normal' inflation prints would see a faster pace of interest rate reductions in 2025. Against this backdrop HSBC analysts expect a 25bp rate cut at each of the MPC meetings in 2025. Markets have firmed up expectations for a BoE rate cut in November and are now pricing in 26bp of easing by November (compared to 23bp yesterday) with roughly 44bp of easing by end-2024 (compared to 37bp yesterday), and roughly 133bp of easing priced in by September 2025 (compared to 125bp yesterday). The pound was trading 0.5% weaker against the dollar this morning at around 1.30 and gilt yields were lower across the curve (10y gilt yield -8bp to 4.08% and 2y gilt yield -9bp at 4.03%).

Exhibit 1: Inflation Set to Remain Notably Below BoE's August MPR Projections



Source: Goldman Sachs Global Investment Research, Haver Analytics, Bank of England

Japan



The yen briefly gained as investors reacted to the possibility of a moderate pace of rate hikes from the BOJ. Bank of Japan (BOJ) board member Seiji Adachi discussed monetary policy normalization in a speech, lifting the yen by as much as 0.2% to 148.88 per dollar intraday. Adachi emphasized a gradual approach to raising rates, aiming to reach a 2% price trend while keeping financial conditions easy. He cautioned that an overly rapid rate increase could push the economy back into deflation. Market analysts noted that this slow approach to interest rate hikes, without a specific timeframe, could inject volatility in the outlook for the yen. Elsewhere, the Nikkei declined by 1.8%, its largest drop in two weeks, as semiconductor-related shares tumbled following disappointing earnings from ASML Holding NV, the world's leading manufacturers of chip-making equipment.

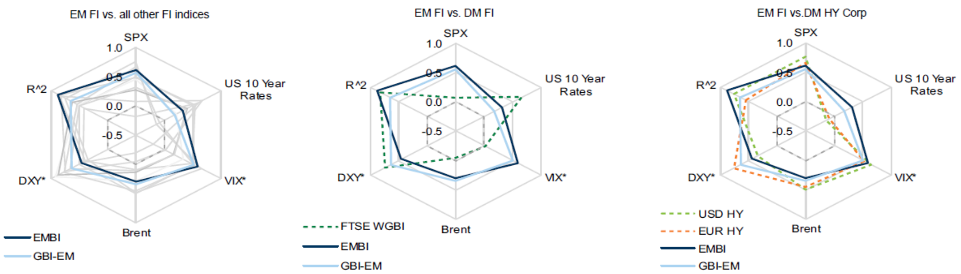
Emerging Markets back to top

Investors in Asia focused on central bank decisions from the region, with the Bank of Thailand and the central bank of the Philippines lowering policy rates by 25bp each, while Bank Indonesia kept its benchmark rate steady. Asian currencies mostly gained, with the rupiah outperforming (+0.4%) while the Thai baht (+0.2%) and the Philippine peso (+0.1%) also gained despite rate cuts. **EMEA equities and currencies were mixed,** while local currency bond yields were little changed. In CEE the stock market was in the green in Hungary (0.3%) but red in the other main countries of the area, with Czechia underperforming (-0.3%). CEE currencies edged down against the euro this morning, with the Czech koruna down by 0.2% and the Hungarian forint lower by -0.2 (-1% MTD). In South Africa equities gained (0.3%) and the rand appreciated (+0.4%) against the dollar. In Türkiye the stock market continued to edge down by -0.3% today (- 8.6% MTD) and the lira was little changed against the dollar ahead of the central bank's decision tomorrow where consensus expects the policy rate to be kept unchanged at 50%. **LatAm currencies slid on a strong dollar, while regional equities were mixed**. The Mexican peso sustained the largest losses (-1.6%), partly due to remarks about potential import tariffs made as part of the US presidential election campaign. In Chile, S&P Global maintained the sovereign rating at "A" and raised the outlook to stable. While local markets closed lower on the day, with equities and the currency down 0.2% and 1.5%, respectively, CDS spreads have been steadily declining over time and are near their pre-pandemic levels. The Peruvian sol, in comparison, saw modest losses (-0.2%). The country also reported stronger-than-expected economic data yesterday, with Aug. economic activity growing by 3.5% y/y and the Sep. unemployment rate falling to 5.9%.

EM fixed income performance

EM Fixed Income (FI) assets performance correlates positively with that of risky assets, and benefits from declining global rates, unlike developed market (DM) FI assets**.** These two conditions, which also characterize the current market environment, explain the recent outperformance of EM FI, according to a market report. The report tests this by estimating weekly correlations since 2004 between the returns of EM and DM FI assets and 5 key metrics: risk sentiment (proxied by S&P returns), core duration (proxied by yields on 10 yr US treasuries), US dollar, volatility (VIX), and commodity prices (proxied by brent crude prices). These correlations and their explanatory power (R^2) are shown in the three spider chart panels of the figure below. As hypothesized, unlike DMs, the returns on EM FIs have a strong positive correlation with returns on risk-assets. However, they also benefit from core rate duration performance, unlike DM high-yield credit (right panel).

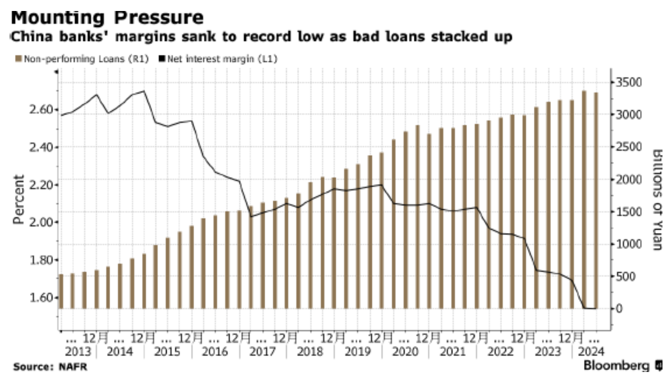
Exhibit 12: EM Fixed Income Tends to Be Correlated to Both Risk and Global Rate Performance
Correlation of weekly fixed income benchmark performance versus global macro assets



Correlations based on 20-year sample; R^2 is the variance explained of fixed income index performance by all of the global macro assets; * - for DXY and VIX we flipped the sign to match the direction of pro-cyclical fixed income assets. The dotted grey line represents the zero-correlation line.

Source: Bloomberg, Goldman Sachs Global Investment Research

China



Banks in China are expected to lower deposit rates as early as this week following the authorities' announced stimulus measures in recent weeks. Large banks are guided by the PBC's interest rate self-disciplinary mechanism which sets a corridor for private rates. Market analysts noted that the one-year time deposit could fall by at least 20bp, while those with longer maturities could fall by at least 25bp in some large banks, including banks such as Industrial & Commercial Bank of China and China Construction Bank. The cuts would mark the second such reduction this year and are expected to further squeeze banks' profitability. According to Bloomberg, the banking sector's net interest margins have been falling and reached a record low of 1.54% at the end of June, well below the 1.8% threshold seen as necessary to maintain reasonable profitability. Meanwhile, China's property shares rose by as much as 8.3% on the day ahead of a joint news conference held by government officials from the housing ministry and central bank. The broader CSI index was moderately lower (-0.6%) while the RMB was little changed.

Thailand

In a surprise move, the Bank of Thailand (BOT) lowered its policy rate by 25 bp to 2.25%. Market participants had expected the BOT to remain on hold, given its reluctance to use monetary policy tools to address Thailand's structural challenges, including a sluggish manufacturing sector challenged by imports competition. The rate setting committee voted 5–2 to lower the one-day repurchase rate, its first cut in more than four years. Although Thailand's Q2 GDP growth rate, at 2.3%, y/y, was the fastest in five quarters, it has lagged the expansion seen in its neighbors. Just days before the BOT policy meeting, Commerce Minister Pichai Naripthaphan called for a 50bp cut this year, and a trade association, the Federation of Thai Industries, reiterated its call for a 25bp cut to ease the financial burden of businesses. The Thai baht gained following the rate decision, rising 0.14% but remains within the trading range seen this week.

Indonesia

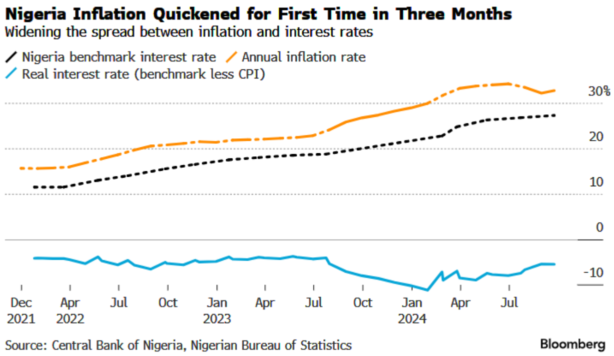
Bank of Indonesia kept its key interest rate steady at 6%, in line with expectations. This latest policy decision is in contrast with last month's surprise move to lower the policy rate ahead of the Fed's easing cycle. Market analysts noted that considerations for the stability of Indonesia's external sector, including the stability of the rupiah, are a primary consideration for the BI. Since the beginning of October, the rupiah has lost 2.4% against the dollar. Following its policy meeting, BI noted that Q4 growth is expected to remain solid, supported by investment, improved domestic demand, and accelerating government spending. Market analysts also noted that BI is likely to closely monitor the Fed's rates decisions and could resume its rate cuts as early as next month if the Fed lowers its policy rate again. The rupiah outperformed its regional peers, gaining 0.4% on the day, following BI's rate decision.

The Philippines

The Bangko Sentral ng Pilipinas (BSP) cut its benchmark interest rate by 25bp amid slowing inflation. The BSP reduced the target rate to 6%, in line with expectations. Philippine inflation slowed to a four-year low of 1.9% in September, within the central bank's forecast range. Governor Remolona has signaled a preference for quarter-point cuts, instead of bigger reductions. Market observers expect the BSP to lower the policy rate by another 25bp in its upcoming meeting in December. The peso was little changed on the day.

Nigeria

Analysts expect further rate hikes after Nigeria's headline inflation increased in September, retracing the recent decline. Data released yesterday showed headline inflation increasing to 32.7%y/y in September, versus expected 32.4% from 32.2% in August. This follows the significant fuel price hike earlier in September. In addition to higher fuel and energy costs, ICBC analysts also attribute the increase in September's headline inflation to flooding in food-producing states. Absa analysts caution that inflation could increase further in the remainder of this year, as fuel prices have continued to increase this month and with the naira remaining under pressure. Against this backdrop the analysts see a higher risk of another 50bp rate hike by the central bank of Nigeria at the next MPC meeting, set to take place in November. Similarly, ICBC analysts see a 50–100bp rate hike as possible in November.



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

10/16/24 8:28 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
United States		5,819	-0.8	0.5	3.3	33.0	22
Europe		4,915	-0.6	-1.4	1.8	18.4	9
Japan		39,180	-1.8	0.6	8.2	22.3	17
China		3,832	-0.6	-3.1	21.3	5.3	12
Asia Ex Japan		77	-2.5	-2.6	6.5	20.4	16
Emerging Markets		45	-2.1	-2.2	5.2	18.5	12
Interest Rates					basis points		
US 10y Yield		4.0	-2	-6	39	-69	13
Germany 10y Yield		2.2	-4	-7	6	-60	16
Japan 10y Yield		1.0	-2	2	11	20	34
UK 10y Yield		4.1	-9	-11	31	-41	54
Credit Spreads					basis points		
US Investment Grade		121	0	-1	-14	-34	-13
US High Yield		344	1	4	-37	-109	-41
Exchange Rates					%		
USD/Majors		103.2	0.0	0.3	2.4	-2.9	2
EUR/USD		1.1	0.1	-0.4	-2.1	3.2	-1
USD/JPY		149.2	0.0	-0.1	6.1	-0.2	6
EM/USD		45.3	0.1	-0.7	-1.9	-2.7	-6
Commodities					%		
Brent Crude Oil ($/barrel)		74.2	-0.1	-3.1	2.8	-9.7	-1
Industrials Metals (index)		150.8	0.8	0.9	3.2	10.7	6
Agriculture (index)		56.0	0.1	-1.7	1.1	-13.6	-10
Implied Volatility					%		
VIX Index (%, change in pp)		20.7	0.1	-0.1	3.6	3.5	8.3
Global FX Volatility		8.5	0.0	0.0	0.0	0.4	0.4
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		89	-1	-6	-9	-65	-15
Italy		124	0	-7	-12	-74	-44
Portugal		47	0	-4	-11	-26	-16
Spain		72	0	-3	-7	-40	-25

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

Emerging Market Financial Indicators

Last updated: 10/16/2024 8:30 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		7.11	0.1	-0.4	-0.2	2.8	-0.2		1.9	1	-8	7	-82	-60
Indonesia		15510	0.5	0.8	-0.7	1.4	-0.7		6.7	-2	-1	10	-10	20
India		84	0.0	0.0	-0.1	-0.9	-0.9		7.1	-1	0	21	-62	-16
Philippines		58	0.1	-1.3	-3.3	-1.7	-4.1		4.8	0	-2	-26	-98	-83
Thailand		33	0.5	1.2	0.3	9.4	3.4		2.4	-9	-10	7	-97	-30
Malaysia		4.30	0.3	-0.4	0.1	10.2	6.9		3.8	-2	0	6	-26	5
Argentina		979	0.1	-0.5	-1.9	-64.3	-17.4		40.5	19	11	18	-6451	-4584
Brazil		5.64	0.1	-0.9	-2.4	-10.7	-14.0		12.5	-4	11	57	66	207
Chile		938	0.5	-0.6	-1.7	0.8	-6.1		5.0	0	8	43	-78	5
Colombia		4247	-1.0	-0.4	-0.2	-0.1	-8.7		8.1	0	19	64	-120	42
Mexico		19.78	-0.4	-1.4	-2.8	-9.6	-14.2		9.1	0	8	48	-37	68
Peru		3.8	-0.2	-0.5	0.4	2.5	-1.6		6.4	-1	-16	2	-136	-31
Uruguay		42	-0.3	-0.6	-1.6	-4.2	-6.5		9.7	6	15	-30	-13	13
Hungary		368	-0.2	-0.9	-3.7	-0.6	-5.6		6.2	-2	6	46	-102	45
Poland		3.95	-0.1	-0.4	-2.7	6.8	-0.2		4.9	2	7	47	-7	39
Romania		4.6	0.1	-0.4	-2.1	3.0	-1.3		6.6	0	4	0	-30	37
Russia		97.0	0.0	0.0	-5.8	0.5	-7.7							
South Africa		17.6	0.4	0.5	0.3	6.8	4.5		8.8	-5	6	37	-120	-36
Türkiye		34.21	0.0	0.1	-0.6	-18.5	-13.7		29.5	-16	7	25	195	277
US (DXY; 5y UST)		103	0.0	0.3	2.4	-2.8	1.9		3.84	-2	-8	43	-88	-1

	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		3,832	-0.6	-3.1	21.3	5.3	11.7		114	-3	-12	-60	-44
Indonesia		7,649	0.3	2.0	-2.3	10.2	5.2		93	1	-18	-41	-3
India		81,501	-0.4	0.0	-1.9	22.7	12.8		92	-3	-22	-50	-24
Philippines		7,437	-0.3	0.2	3.6	18.4	15.3		79	1	-16	-30	-1
Thailand		1,485	1.4	2.2	3.4	3.6	4.9		0	0	0	0	0
Malaysia		1,633	-0.6	-0.1	-1.9	13.1	12.2		72	-2	-18	-25	-13
Argentina		1,816,251	0.7	5.9	0.2	138.8	95.4		1048	-141	-357	-1468	-865
Brazil		131,043	0.0	-0.4	-3.0	12.5	-2.3		209	4	-20	-13	-6
Chile		6,559	-0.2	0.3	3.3	12.1	5.8		113	0	-14	-33	-12
Colombia		1,329	0.2	2.2	0.8	19.0	11.2		308	2	-21	-44	37
Mexico		52,378	0.7	1.2	0.7	5.1	-8.7		299	1	-28	-73	-35
Peru		30,230	-1.2	-0.1	4.7	35.5	16.4		140	3	-8	-22	-4
Hungary		74,778	0.1	1.0	2.8	32.8	23.4		147	1	-18	-52	-2
Poland		83,294	0.1	0.5	1.9	19.1	6.2		109	2	-10	-17	12
Romania		17,430	-0.4	-1.3	-0.6	22.8	13.4		188	-2	-22	-28	-13
South Africa		86,196	0.3	1.0	5.1	17.8	12.1		271	3	-38	-121	-37
Türkiye		8,836	-0.3	-3.2	-7.7	11.4	18.3		272	-5	-34	-129	-42
EM total		45	0.4	-2.2	5.2	18.5	12.4		382	-6	-26	-28	37

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

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