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ECB cuts rates by 25 bps, as expected

The euro was steady and bund yields were little changed after the ECB cut its benchmark rate by 25 bps to 3.25%, as expected. The ECB noted that the disinflationary process is “well on track”, with markets fully pricing a 25 bps reduction at the bank’s subsequent three meetings. Expectations for the terminal rate were little changed, with an implied rate of 1.85% for the September 2025 meeting. Prior to the release, euro area equities were higher, led by gains in the banking, industrial, and consumer goods sectors. Across the pond, US Treasury yields rose following the release of stronger-than-expected retail sales and lower-than-expected jobless claims, with 10-year yields 4 bps higher immediately after the release. Futures on the tech-heavy Nasdaq 100 index signaled a positive opening led by chip stocks after TSMC posted better-than-expected earnings. In emerging markets, Chinese equities underperformed as hopes for sizable and decisive housing market support were dashed, with shares of property developers down as much as 8% on the day.

Key Global Financial Indicators

Last updated: 10/17/24 8:11 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		5842	0.5	1	4	34	22
Eurostoxx 50		4943	0.7	-1	2	19	9
Nikkei 225		38911	-0.7	-1	7	21	16
MSCI EM		46	0.8	-1	6	20	13
Yields and Spreads			bps				
US 10y Yield		4.03	2.0	-3	39	-80	15
Germany 10y Yield		2.20	1.3	-6	5	-69	17
EMBIG Sovereign Spread		350	-1	1	-34	-95	-33
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		45.1	-0.1	-1	-2	-3	-6
Dollar index, (+) = \$ appreciation		103.5	-0.1	0	3	-3	2
Brent Crude Oil (\$/barrel)		74.3	0.1	-6	1	-17	-4
VIX Index (% change in pp)		19.4	-0.2	-2	2	2	7

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

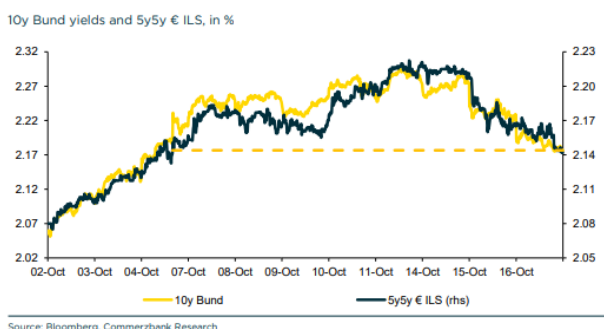
Mature Markets

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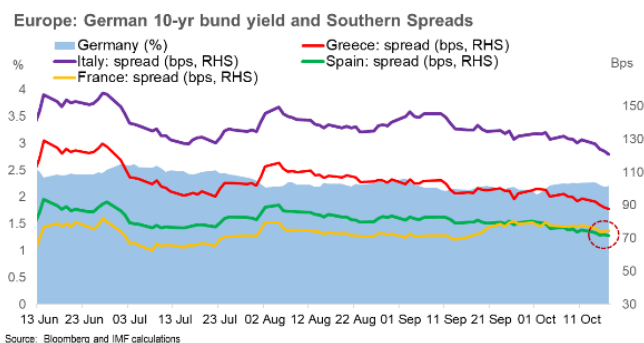
Euro area

As expected, the ECB cut today its three key policy rates by 25 bps taking the benchmark deposit rate to 3.25%. The decision was taken since “incoming information on inflation shows that the disinflationary process is well on track. The inflation outlook is also affected by recent downside surprises in indicators of economic activity.” The ECB restated that it is not pre-committing to a particular rate path and maintained the language in its forward guidance unchanged as it “will keep policy rates sufficiently restrictive for as long as necessary to achieve this aim [2% medium-term target]. The governing council will continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level.” The euro edged slightly higher after the decision, while euro area government bond yields were little changed.

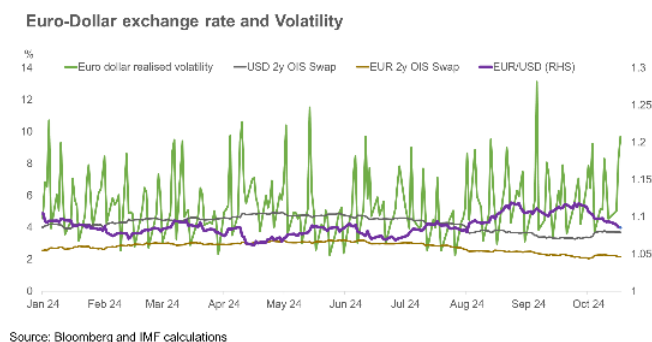
Analysts at Commerzbank believe that the yields decline observed recently was driven by lower longer-term inflation expectations as witnessed by 5-year/5-year forward rates edging down, as investors scaled back short-term inflation expectations due to lower oil prices and built confidence on back-to-back cuts by the ECB amid weak growth. Commerzbank expects this dynamic to continue with long-term bund yields declining despite France and Spain increasing supply this week. Analysts at Crédit Agricole believed that a recession in the euro area remains unlikely in spite of the weaknesses of the German economy, leaving inflation targeting as the main reason for the ECB to cut rates.



The spread of Italy's 10-year sovereign bond versus the 10-year bund continued to narrow (-2 bps) today to 121 bps. Analysts at Rabobank believe this could be linked to expectations that Italy might benefit from some positive rating action by Fitch and S&P on Friday afternoon (Italy is currently rated at BBB – stable- by Fitch and S&P, which is one notch higher than Moody's).



Analysts at ING noted that in the medium term the euro will be impacted by uncertainty related to the US presidential elections as investors are positioning against threats of broader tariffs, particularly on the European auto industry. Analysts also believe the euro will likely react sensitively to weak data in the coming weeks, starting from next Thursday if October PMI indices disappoint.



Prior to the ECB decision, **European equities rebounded** with the Stoxx 600 index up by +0.4%, led by gains in the banking (1.3%), industrial (+0.8%) and consumer goods (0.8%) sectors. Equities in France (CAC 40 index +1.2%) and Italy (FTSE MIB index +1.1%) outperformed. Analysts at Crédit Agricole highlighted mixed risk sentiment in equity markets, with investors disappointed in Asia in spite of new stimulus measures announced in China, while US banks' strong Q3 results and the lower UK September inflation print yesterday (1.7% vs 1.9% consensus) supported risk sentiment.

United States

US mortgage rates climbed higher while the number of applications dropped sharply. Along with the recent surges in Treasury yields, the 30-year fixed mortgage rate jumped by 38 bps to 6.52% in the week ending October 11 since the end of September, the fastest increase since early 2023. The 15-year fixed mortgage rate also rose, climbing 23 bps to 5.94%. Rising mortgage rates are dampening hopes for a swift recovery in the housing market, which has been struggling with high borrowing costs and elevated asking prices. On Wednesday, the Mortgage Bankers Association reported a 17% drop in its mortgage applications index for the week ending October 11, following a 5% decline in the previous week. The home purchases index declined by 7% during the same week, the largest drop since early February, while the refinancing index plummeted 26%, after a 9% fall in the previous week.



This morning, US **retail sales were stronger-than-expected while jobless claims were lower-than-expected.** Advanced retail sales grew by 0.4% in September (+0.1% prior, +0.3% expected), with sales excluding auto and gas rising by 0.7% (+0.2% prior, +0.3% expected). Initial jobless claims came in at 241k (258k prior, 259k expected) last week, while continuing jobless claims rose slightly to 1,867k (1861k prior, 1865k expected) for the week of October 5. Treasury yields rose immediately after the release.

Emerging Markets

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Overall, **sentiment across Asian markets was cautious.** Major equity indices fell, with China (-1.1%) and Hong Kong (-1.0%) underperforming, as investors found China's latest housing market initiatives underwhelming. **EMEA equities and currencies were mixed.** Equities in Türkiye outperformed (+0.6%)

while those in Egypt underperformed (-1.0%). In CEE, currencies were weaker against the euro, with the Polish zloty sliding (-0.5%) to trade at 4.32/€. The Turkish lira was little changed against the dollar to trade at 34.16/\$, after the Central Bank of the Republic of Türkiye kept rates unchanged at 50%, in line with consensus expectations. Meanwhile, the South African rand depreciated (-0.6%). In **LATAM**, while **equities mostly traded higher, most currencies continued to depreciate yesterday**. The Mexican peso (-1%) underperformed **but the** Chilean peso (+0.6%) bucked the trend on stronger copper prices. The central bank of Chile is widely expected to cut its policy rate by 25 bps to 5.25% **later** today. In **Brazil**, according to media reports, **the** government is considering options to reduce fiscal expenditure by about \$8.8 bn. However, analysts remain skeptical about its implementation.

China

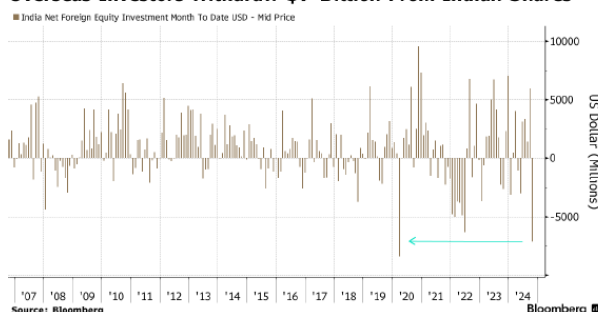
Equities fell as hopes for sizable and decisive housing market support were dashed. The CSI index fell 1.1%, bringing its cumulative loss to 4.5% on the week or a decline of nearly 11% since its recent peak on October 8. In a press briefing on new measures to support the property sector, housing minister Ni Hong noted that the market nationwide is “starting to find its bottom.” Key new initiatives include an expanded whitelist of unfinished housing projects and developers for credit provision. Loans under the program will double the current limit to RMB 4 tn. Moreover, the pool of homes in run-down districts for renovation and purchase will be expanded. Residents can receive cash for home purchases through local governments’ special bond issuance proceeds. Market participants were underwhelmed by the announcement. Some had expected the central government and the PBC to become directly involved in property market support, not local governments and banks. By Nomura’s estimate, delivering China’s sold but unbuilt homes, estimated at 48 mn units, will require around RMB 3 tn of direct funding from the central government. Shares of property developers lost as much as 8% on the day, reversing gains from yesterday.

China's Stock Rally Fizzles Out After Key Press Briefing



India

Indian equities extended recent declines as investors reassessed their outlook and increased allocations to China. The Nifty index fell for a third day, losing 1.3% on the week and paring the year’s gains to about 15%. Analysts noted that investor sentiment regarding Indian equities is turning. This decline is driven by a weakening growth and profit outlook, including lackluster consumer spending, rising commodity prices, and slowing earnings growth. According to a Bank of America survey, the number of bulls is now equal to those who hold bearish outlooks. This is in stark contrast to sentiment from July, when optimists held a net 32 ppt lead. Meanwhile, according to Bloomberg, overseas investors withdrew more than \$7 bn from Indian equities thus far in October, on course for the biggest monthly outflow on record since March 2020. Despite this, net domestic fund flows have helped offset the negative impact. To stabilize the market, India’s securities regulator increased the position limit on equity index derivatives by 15-fold to nearly \$900 mn per contract. This change aims to attract sophisticated investors to place larger bets on India’s equities.

Overseas Investors Withdraw \$7 Billion From Indian Shares**Mexico**

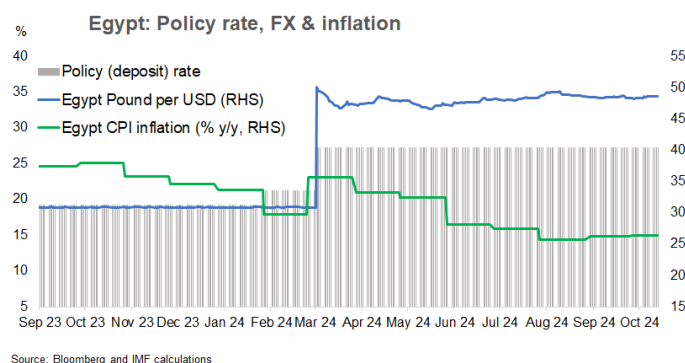
Implied volatility in the Mexican peso surged to multi-year highs following the pro-tariff comments made by US presidential candidate Trump. The implied volatility, based on 1-month contracts, has been increasing since April 2024 and has now risen to the levels last seen in late-2020. A similar, though less pronounced, reaction was seen in the broader EM FX index. Notably, Trump reiterated on Tuesday that tariffs would be the cornerstone of his government's economic policy. Additionally, markets are reportedly assigning a higher probability of a Trump victory in upcoming US elections on November 5. According to media reports, these two factors have collectively spurred activity in the FX options markets, likely driven by hedging demand by corporates. Notably, the volumes for the Chinese RMB and the Mexican peso contract reportedly reached their highest monthly levels on Tuesday.

EM Currency Volatility Gauge Jumps Ahead of US Elections

Sources: Bloomberg, and IMF Staff

Implied Volatility of Mexican peso spikes to late 2020-levels**Egypt**

Analysts expect interest rate cuts in Egypt will be pushed back to 2025 as the rate of inflation accelerated in the last two months. Rising energy prices combined with cuts in state subsidies for fuel and electricity have pushed up inflation leading analysts at Goldman Sachs to revise their earlier expectations for a rate cut at today's meeting. The analysts now expect policymakers to keep the benchmark deposit rate on hold today at 27.25%, in line with consensus expectations. They also expect inflation to remain around current levels (26.4% y/y in September) 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 900 bps of rate cuts in Q1 2025 alone. This morning the Egyptian pound was trading broadly stable ahead of today's policy decision.



EM bond issuance

EM bond issuance increased by 20% w/w to \$15.3 bn for the week ending on October 12. About a third of the issuance came from the non-financial corporate sector (\$4.9 bn), while financials and sovereigns raised \$2.9 bn and \$1.7 bn, respectively. In terms of regional distribution, CEEMEA saw the largest volume of \$6.5 bn during the week, followed by Asia ex-China (\$4.8 bn) and LATAM (\$3 bn). This has taken the cumulative bond issuance in EMs to \$552 bn for YTD 2024 vs. about \$353 bn for the corresponding period last year.

Figure 1. EM bond issuance, by sector (bn. USD)

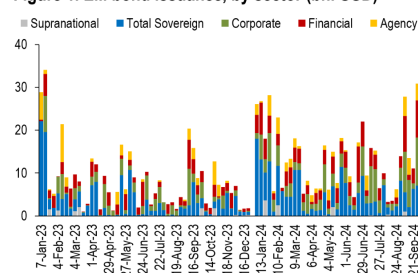
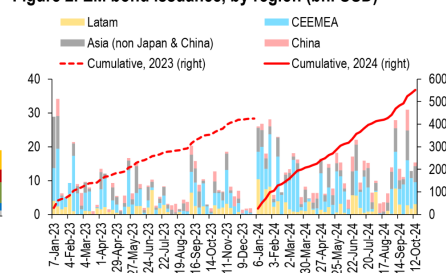


Figure 2. EM bond issuance, by region (bn. USD)



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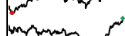

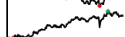




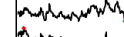



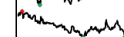
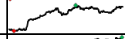










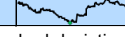

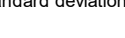




Global Financial Indicators

10/17/24 8:10 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities			%				%
United States		5,868	0.5	1.5	4.1	34.2	23
Europe		4,943	0.7	-0.5	1.7	19.1	9
Japan		38,911	-0.7	-0.9	7.0	21.4	16
China		3,788	-1.1	-5.2	19.5	4.9	10
Asia Ex Japan		78	1.0	-1.3	7.5	22.1	17
Emerging Markets		46	0.8	-0.9	5.9	19.7	13
Interest Rates			basis points				
US 10y Yield		4.0	2	-3	39	-80	15
Germany 10y Yield		2.2	1	-6	5	-69	17
Japan 10y Yield		1.0	1	1	14	19	36
UK 10y Yield		4.1	1	-14	30	-44	53
Credit Spreads			basis points				
US Investment Grade		120	0	-2	-13	-35	-14
US High Yield		337	-2	-9	-34	-113	-48
Exchange Rates			%				
USD/Majors		103.5	-0.1	0.5	2.6	-2.6	2
EUR/USD		1.1	0.0	-0.6	-2.2	2.7	-2
USD/JPY		149.6	-0.1	0.7	5.0	-0.2	6
EM/USD		45.1	-0.1	-0.8	-2.1	-3.2	-6
Commodities			%				
Brent Crude Oil (\$/barrel)		74.3	0.1	-6.4	1.8	-9.8	-1
Industrials Metals (index)		148.3	-1.2	-2.0	1.8	9.1	4
Agriculture (index)		55.5	-0.5	-2.8	-0.6	-14.7	-11
Implied Volatility			%				
VIX Index (%, change in pp)		19.4	-0.2	-1.6	1.8	1.5	6.9
Global FX Volatility		8.6	0.0	0.0	0.0	0.5	0.5
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		87	-1	-5	-10	-60	-16
Italy		121	-2	-7	-15	-80	-47
Portugal		46	-1	-4	-12	-27	-17
Spain		71	-1	-2	-9	-41	-26

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

Emerging Market Financial Indicators

Last updated: 10/17/2024 8:09 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		7.12	0.0	-0.6	-0.3	2.7	-0.3		1.9	-1	-4	7	-84	-60
Indonesia		15507	0.0	1.1	-1.1	1.3	-0.7		6.7	-1	-3	10	-11	18
India		84	-0.1	-0.1	-0.4	-1.0	-1.0		7.1	0	-5	20	-64	-16
Philippines		58	-0.1	-0.9	-3.7	-1.9	-4.2		4.8	0	-4	-1	-98	-83
Thailand		33	0.1	0.8	0.6	9.5	3.3		2.4	0	-11	11	-99	-30
Malaysia		4.31	-0.3	-0.4	-1.2	9.9	6.6		3.8	-1	-1	8	-28	4
Argentina		980	-0.1	-0.6	-2.0	-64.3	-17.5		39.9	-67	-79	-30	-6518	-4651
Brazil		5.68	-0.3	-1.7	-3.5	-11.3	-14.6		12.6	13	28	74	83	223
Chile		937	0.1	-0.7	-0.8	0.1	-6.0		4.9	0	0	36	-96	1
Colombia		4264	-0.4	-0.7	-0.6	-0.6	-9.1		8.1	0	13	71	-134	44
Mexico		19.99	-0.5	-2.6	-4.4	-9.9	-15.1		9.3	-2	12	70	-34	81
Peru		3.8	-0.1	-0.1	0.3	2.4	-1.7		6.4	0	-13	4	-135	-31
Uruguay		42	-0.4	-0.3	-2.0	-4.6	-6.9		9.7	1	18	-35	-12	14
Hungary		368	0.3	-0.4	-3.5	-1.3	-5.6		6.4	10	21	58	-95	59
Poland		3.97	-0.3	-0.8	-3.1	5.3	-0.8		4.9	3	12	54	-6	47
Romania		4.6	0.0	-0.6	-2.2	2.6	-1.6		6.6	0	3	-3	-31	36
Russia		97.1	0.4	-0.3	-5.7	0.9	-7.9							
South Africa		17.7	-0.6	-1.1	-0.7	6.0	3.5		8.9	3	13	40	-110	-26
Türkiye		34.16	0.1	0.1	-0.2	-18.2	-13.6		29.5	-3	18	57	188	279
US (DXY; 5y UST)		103	-0.1	0.5	2.6	-2.6	2.1		3.85	1	-3	41	-101	1

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	7 Days	30 Days	12 M		
								basis points						
China		3,788	-1.1	-5.2	19.5	4.9	10.4		114	0	-12	-59	-44	
Indonesia		7,735	1.1	3.4	-1.2	11.7	6.4		91	4	-22	-36	-5	
India		81,007	-0.6	-0.7	-2.3	23.0	12.1		93	-1	-21	-47	-23	
Philippines		7,400	-0.5	-0.2	3.4	18.1	14.7		77	4	-20	-27	-3	
Thailand		1,495	0.7	2.6	4.1	4.0	5.6		0	0	0	0	0	
Malaysia		1,641	0.5	0.0	-1.2	13.5	12.8		71	-1	-18	-25	-14	
Argentina		1,776,061	-2.2	2.6	-2.1	115.6	91.0		1057	-72	-325	-1379	-856	
Brazil		131,750	0.5	1.4	-2.4	13.7	-1.8		210	5	-22	-12	-5	
Chile		6,543	-0.3	-0.5	3.3	11.1	5.6		111	2	-19	-32	-14	
Colombia		1,337	0.6	2.8	1.8	19.5	11.9		305	-2	-21	-42	34	
Mexico		52,484	0.2	1.2	0.4	5.7	-8.5		300	4	-29	-68	-34	
Peru		30,459	0.8	2.2	6.1	37.0	17.3		138	3	-10	-20	-6	
Hungary		74,734	-0.6	0.5	2.8	31.0	23.3		147	6	-20	-45	-2	
Poland		83,093	-0.8	0.6	0.2	16.7	5.9		108	6	-2	-7	11	
Romania		17,470	-0.1	-0.9	-0.2	23.7	13.7		187	1	-25	-21	-14	
South Africa		86,835	0.5	1.7	4.6	19.2	12.9		270	8	-38	-123	-38	
Türkiye		8,981	0.3	0.2	-8.0	10.7	20.2		272	1	-37	-125	-42	
EM total		46	-0.1	-0.9	5.9	19.7	13.3		381	-1	-26	-23	36	

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

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