GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

Global Markets Monitor

FRIDAY, OCTOBER 18, 2024

LEAD EDITOR: FABIO CORTES

- **Equity shares in China and Hong Kong SAR outperform on official supportive measures** (link)
- **Solid economic data drives up Treasury yields and lowers Fed's rate cut expectations** (link)
- **Yesterday's ECB cut possibly reflected an updated assessment of the inflation outlook** (link)
- **Analysts remain constructive on European banks amid profit concerns from lower rates** (link)
- **Chile's central bank cuts policy rate by 25bps, as expected** (link)
- **Hungary's rate cutting cycle could be paused due to geopolitical uncertainty** (link)

Special Feature: EM BOP Capital Flows Monitor (attached)

Mature Markets | Emerging Markets | Market Tables

Market sentiment lifted by renewed support measures in China

Chinese equities outperformed as the PBOC disclosed more details of its measures to boost capital markets and key officials offered supportive comments. President Xi emphasized the key role of science and technology in driving the country's modernization, lifting technology shares, and PBOC governor Gongsheng flagged the real estate sector and stock markets as key challenges in the economy that require targeted policy support. Elsewhere, European stocks gained modestly and US equity futures signaled an opening in the green supported by the release of better-than-expected results from Netflix. In fixed income, US Treasury yields were little changed and the dollar was slightly weaker. Across the pond, the bund yield curve bull steepened following the 25 bps rate cut by the ECB yesterday. Money markets have scaled up expectations for a larger -50 bps rate cut in December by the ECB, pricing in today -36 bps of rate easing, a 44% likelihood of a 50 bps cut in December from nearly 0% on Wednesday.

Key Global Financial Indicators

Last updated: 10/18/24 8:16 AM	Level		Change from Market Close				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
Equities					%		%
S&P 500		5841	0.0	1	4	35	22
Eurostoxx 50		4980	0.7	0	3	21	10
Nikkei 225		38982	0.2	-1	3	25	16
MSCI EM		45	-0.2	-1	6	21	13
Yields and Spreads					bps		
US 10y Yield		4.11	1.4	1	40	-81	23
Germany 10y Yield		2.21	-0.5	-6	2	-72	18
EMBIG Sovereign Spread		334	-15	-19	-43	-108	-49
FX / Commodities / Volatility					%		
EM FX vs. USD, (+) = appreciation		45.3	0.3	-1	-2	-2	-6
Dollar index, (+) = $ appreciation		103.6	-0.2	1	3	-3	2
Brent Crude Oil ($/barrel)		74.3	-0.2	-6	1	-19	-4
VIX Index (%, change in pp)		19.1	0.0	-1	1	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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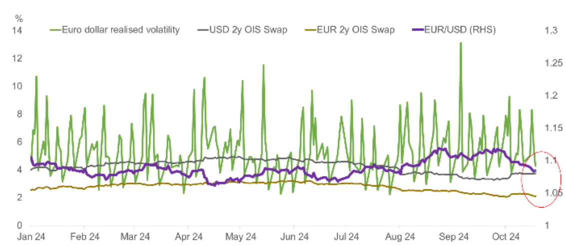
United States

Solid economic data are driving up Treasury yields and lowering Fed's rate cuts projections. US retail sales exceeded forecasts in September, showing resilient consumer spending that continues to power the economy. Initial jobless claims also had a larger-than-anticipated decline for last week. These latest data, along with a strong payroll employment report and hotter-than-expected CPI released earlier this month, reinforce the view the economy is far from a recession. The federal funds futures market now price a 23 bps rate cut at the November FOMC meeting and a subsequent 20 bps cut in December, down from 34 bps and 32 bps, respectively, before the nonfarm payroll report on October 4. Yesterday, Treasury yields were nearing a two-month high, with the 2-year yield almost touching 4% and the 10-year yield approaching 4.10%.

Euro area

European equities traded in the green this morning, with the Stoxx 600 index up by +0.3%, led by gains in the information technology (+1.6%), consumers goods (+1.3%) and materials (+0.8%) sectors, with the energy sector also continuing to rise today (+0.7%) while oil prices were little changed. Separately, **the euro was little changed today after weakening yesterday following the ECB 25 bps cut**, which took the deposit benchmark rate to 3.25%. Analysts at ING, continue to see the euro weakening below the 1.08 level in the short term, since the 2-year EUR-USD swap rate spread is now at -140 bps, the widest since May, after yesterday's ECB decision and as US retail sales came in strong.

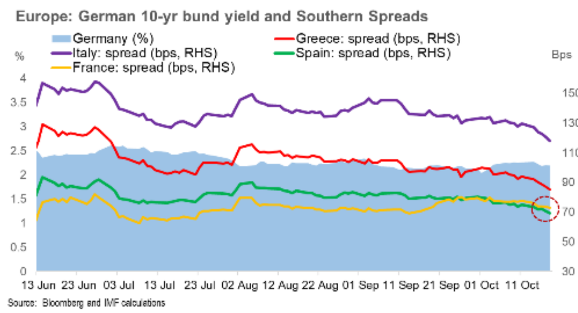
Euro-Dollar exchange rate and Volatility



Source: Bloomberg and IMF calculations

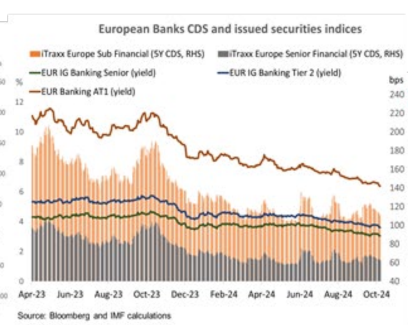
Yesterday's ECB decision was largely expected and possibly reflected an updated assessment of the inflation outlook, suggesting higher potential weakening of price pressures than previously forecasted. Headline inflation dropped in the Eurozone to 1.7% y/y in September, for the first time below 2% in over three years. President Lagarde restated the ECB's data-dependent approach while noting that there are risks to the inflation forecast, with a bias towards downside risks. She mentioned that more data, including new ECB staff projections, will be available before the next MPC meeting in December. **Money markets have scaled up expectations for a larger -50 bps rate cut in December, pricing in today -36 bps of rate easing, a 44% likelihood of a 50 bps cut in December from nearly 0% on Wednesday and** implying a terminal policy rate of 1.75% as of September 2025 (10 bps lower than on Wednesday). Analysts at ING noted that yesterday's decision to "cut rates by 25 bps only five weeks after the last cut, and with only very few pieces of economic data since then, suggests that the ECB must have become much more concerned about the eurozone's growth outlook and the risk of inflation undershooting the target." **European government bond yields edged lower this morning, in particular in the front-end of the curve**, with the **2-year bund yields trading today at 2.10% (-4 bps), the 5-year yields at 2.01% (-3 bps) and the 10-year bund yields at 2.18% (-2 bps).**

The spread of Italy's 10-year sovereign bond yields versus the 10-year bund continued to narrow (-3 bps) today to 118 bps, and that of the 10-year French OAT versus the 10-year bund also declined to 73 bps (-1 bp). According to Bloomberg, France's 2025 budget, presented by PM Barnier, imposes a larger tax burden than initially disclosed, potentially impacting president Macron's pro-business legacy. The budget foresees €60 bn fiscal consolidation, two-thirds from spending cuts and one-third from tax hikes. While the government claimed tax hikes would total less than €20 bn, new documents reveal the figure is €30 bn, primarily targeting large companies and wealthy individuals.



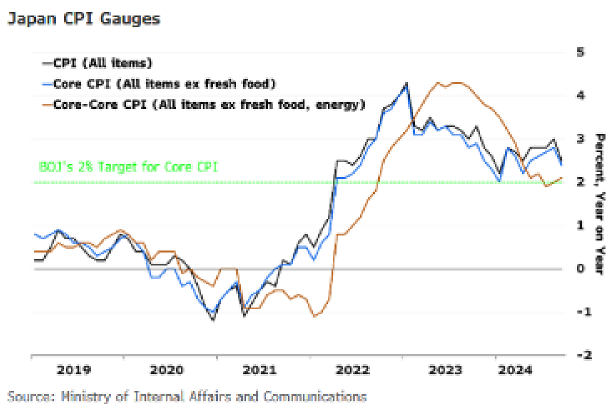
European banks

The European banking sector edged higher today (+0.5%) and is up +2% this week ahead of the beginning of its Q3 earnings release season next week. The banking sector is outperforming the market this year (Stoxx 600 banks index gained +22% YTD vs Stoxx 600 index up +10%) but after a strong first semester it has significantly slowed its pace since the end of July (+1.2%) amid expectations of lower interest rates impacting interest margins and top-line profitability. Analysts at BNP, however, continue to have a constructive view on European banks as they see falling rates reducing the potential upside rather than the level of net interest income (NII). Banks have sound pricing practices and funding structure which, accompanied by a favorable back-book vs front-book gap, should help them keep an elevated return on tangible equity (RoTE) in the range of 12–13% in 2024 and 2025. Meanwhile, analysts at Goldman Sachs expect European bank's net NII to remain stable in Q3 although declining 3% y/y, with the cost of risk continuing to normalise upwards and non-interest income falling in Q3 reflecting seasonality while still growing +8% y/y. The analysts see downside risk to banks' 2025 NII guidance but expect growth in non-interest income to continue to support revenues and headline profitability to levels around 13% RoTE in 2025. Additionally, Crédit Agricole warns about the implications of the Fitch revision to negative of France's credit rating outlook (on October 11) for French banks. The banks could be impacted through higher cost of funding, as spreads on France's debt are likely to remain high in 2025, and because of their relatively high reliance on wholesale funding.



Japan

JGB yields rose as expectations for BOJ rate hikes remain intact following the latest inflation print. Japan's headline inflation in September slowed to 2.5%, y/y, from 3.0% in August but remains above the BOJ's inflation target of 2%. Meanwhile, the CPI print excluding fresh food and energy, rose to 2.1% y/y from 2.0% in August, surpassing market expectations of 2.0%. Together, the latest CPI figures are seen as affording the BOJ some time to consider raising interest rates. Analysts generally expect the BOJ to implement three 25-bp hikes next year. The yield curve steepened modestly, with the 2-year note up 0.4 bp and the 10 and 30-year JGBs up by 1 bp and 1.2 bp, respectively. Recent increases have brought JGB yields to their highest levels since early August. Meanwhile, **the yen remains volatile around the key 150 level**. It appreciated 0.2% after the ministry of finance official Atsushi Mimura noted the "one-sided," speculative nature of recent moves, leading some market observers to expect intervention down the road should the yen weakens further.



Korea

Korean stocks underperformed (-0.6%) as foreign outflows from its equity market continued. Bloomberg data indicated that foreign investors withdrew a net $1.8 bn from Korean equities this month amid US dollar strength and increased expectations for BOK rate cuts. Its currency (unchanged) hovered near its weakest level in two months.

Emerging Markets

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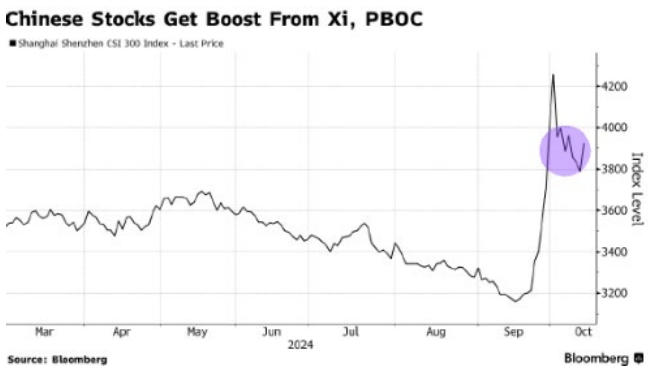
Asian equities mostly gained, led by shares in China (+3.6%) and Hong Kong SAR (+3.5%), where hopes for renewed stimulus boosted sentiment. Asian currencies mostly appreciated modestly, with the offshore RMB (+0.3%) outperforming. **EMEA equities and currencies were mixed.** Equities in Poland (+0.9%) and South Africa (+0.8%) outperformed while those in Türkiye underperformed (-0.5%). In CEE, currencies were a fraction firmer against the euro. The South African rand reversed yesterday's losses to trade stronger (+0.7%). According to Bloomberg, the currency was buoyed by comments from Reserve Bank of South Africa governor Kganyago who suggested possibly lowering the country's inflation target. In **LATAM, many regional currencies strengthened yesterday.** The Mexican peso, which had depreciated over 3% in the last three sessions, appreciated +0.2%. Other major currencies also strengthened in a +0.2-0.3% range. The Chilean peso (-1.1%), however, underperformed amid weakness in copper prices and prior to its monetary policy announcement. Regional equities mostly traded marginally higher, with the exception of Brazil, where equities closed -0.7% lower.

China

Equity shares in China and Hong Kong SAR outperformed on official supportive measures. The PBOC announced that it has set up a special relending facility with an initial RMB300 bn ($42.1 bn) quota for 21 eligible commercial banks to help listed companies and major shareholders buyback shares. The PBOC also announced the start of a swap facility, which allows institutional investors to access liquidity from the central bank to purchase stocks. This facility has received applications totaling over RMB200 bn thus far. Both programs are a part of the government stimulus measures announced in late September. Separately, in a published letter addressed to the 2024 China International College Students' Innovation

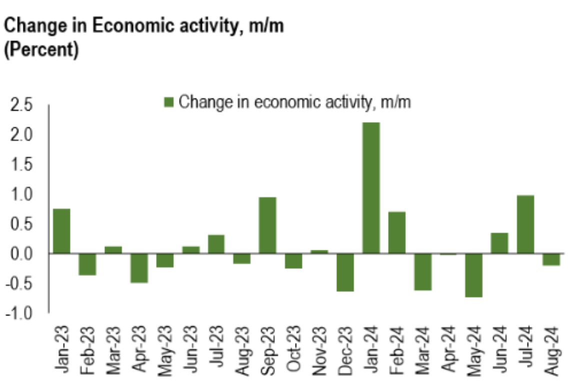
Competition, president Xi emphasized the key role of science and technology in driving the country's modernization. His comments lifted technology shares. Moreover, PBOC governor Gongsheng also flagged the real estate and stock markets as key challenges in the economy that require targeted policy support. Moreover, a number of SOE banks announced reductions in their deposit rates, including a 5 bps cut on demand deposit to 0.1% and a 25 bps reduction on term deposits, with the 1-year rate falling to about 1.1%. By Morgan Stanley's estimate, this latest deposit rate cut could lift banks' NIMs by an average of 11.6bps. The CSI index rose 3.6%, halting three days of declines while the Hang Seng index gained 3.5%.

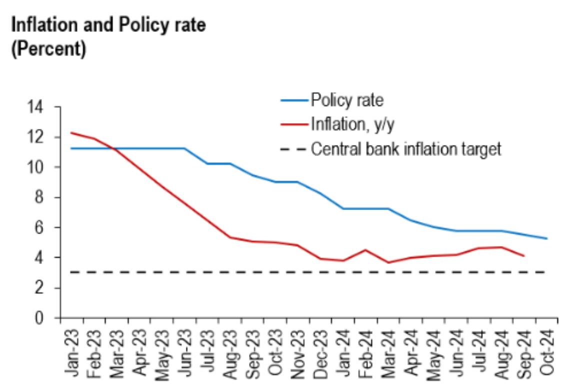


Data releases paint a mixed picture of China's growth outlook. GDP growth in Q4 exceeded expectations (+4.6%, y/y) but nonetheless represented the slowest pace of growth since last March. Moreover, growth for the first nine months fell to 4.8%, at the lower end of the authorities' full-year target of around 5%. That said, the pace of price declines for new homes slowed a touch in September (-0.71%, m/m, compared to -0.73% in August) and the number of cities that saw price declines narrowed from 67 previously to 66 in September.

Chile

The central bank cut the policy rate by 25 bps to 5.25%, as expected. It noted that policy easing might continue until neutral rates—a level that are neither expansionary nor restrictive—are reached, as economic activity has remained "significantly volatile." While inflation has been cooling lately, economic activity surprised the market by contracting by -0.2% m/m in Aug, vs. expectations of 0.3% m/m growth. As a result, market analysts largely expect the country's inflation to eventually fall within the central bank's target of 3%, and therefore see more policy easing going forward. The central bank' monetary policy announcement was made after local markets closed, with the Chilean peso (-1.1%) underperforming peers amid weakness in copper prices.

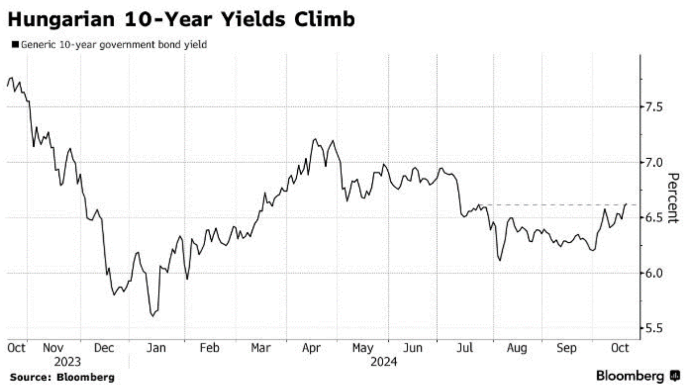




Sources: Bloomberg and IMF staff.

Hungary

Hungary's rate cutting cycle could be on hold for an extended period due to geopolitical uncertainty. National Bank of Hungary's (NBH) deputy governor Virag remarked yesterday that the pause in the country's rate cutting cycle may be longer than markets are anticipating given headwinds facing emerging market countries in the form of geopolitics as well as the US interest rate outlook which impact on domestic inflation and the central bank's ability to adjust rates. Yesterday's hawkish comments supported the forint briefly, with the currency strengthening as much as +0.4% against the euro after Virag's remarks. However, better-than-expected US economic data saw the currency pare some of the earlier gains against the euro. Analysts at ING noted that next week's NBH meeting should provide more details on the likely length of the pause in the cutting cycle. This morning, 10-year Hungarian bond yields rose to the highest level in three months, up 3 bps to 6.63%, with the forint broadly unchanged against the euro at around 400/€, where it has been trading for most of this month.



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Global Financial Indicators

10/18/24 8:17 AM	Level: Last 12m	Level: Latest	Change: 1 Day	Change: 7 Days	Change: 30 Days	Change: 12 M	YTD
Equities					%		%
United States		5,859	0.0	0.8	4.3	35.8	23
Europe		4,980	0.7	-0.5	3.0	21.3	10
Japan		38,982	0.2	-1.0	3.3	24.7	16
China		3,925	3.6	1.0	22.6	11.8	14
Asia Ex Japan		78	-0.3	-1.6	7.5	23.6	17
Emerging Markets		45	-0.2	-1.2	6.1	21.4	13
Interest Rates					basis points		
US 10y Yield		4.1	1	1	40	-81	23
Germany 10y Yield		2.2	-1	-6	2	-72	18
Japan 10y Yield		1.0	1	3	15	17	36
UK 10y Yield		4.1	1	-11	25	-56	56
Credit Spreads					basis points		
US Investment Grade		120	0	-1	-11	-38	-14
US High Yield		335	-2	-7	-30	-122	-50
Exchange Rates					%		
USD/Majors		103.6	-0.2	0.7	3.0	-2.8	2
EUR/USD		1.1	0.2	-0.8	-2.4	3.0	-2
USD/JPY		150.1	-0.1	0.6	5.5	0.1	6
EM/USD		45.3	0.3	-0.6	-1.8	-2.3	-6
Commodities					%		
Brent Crude Oil ($/barrel)		74.3	-0.2	-6.0	2.0	-10.9	-1
Industrials Metals (index)		150.4	1.2	-2.4	3.0	10.1	5
Agriculture (index)		56.3	0.5	-0.7	0.1	-14.2	-10
Implied Volatility					%		
VIX Index (%, change in pp)		19.1	0.0	-1.4	0.9	-0.1	6.7
Global FX Volatility		8.6	0.0	0.1	0.2	0.6	0.5
EA Sovereign Spreads					10-Year spread vs. Germany (bps)		
Greece		85	-2	-9	-16	-65	-19
Italy		118	-3	-12	-20	-88	-50
Portugal		44	-2	-7	-15	-29	-19
Spain		69	-2	-6	-12	-44	-28

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

Emerging Market Financial Indicators

Last updated: 10/18/2024 8:18 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		7.10	0.3	-0.5	-0.3	3.0	-0.1		1.9	1	-3	11	-84	-59
Indonesia		15481	0.2	0.6	-0.9	1.6	-0.5		6.7	0	-2	10	-22	18
India		84	0.0	0.0	-0.4	-1.0	-1.0		7.1	6	2	26	-65	-10
Philippines		58	0.6	-0.5	-3.1	-1.4	-3.7		4.8	4	10	-22	-96	-79
Thailand		33	0.1	-0.1	0.5	9.6	3.2		2.4	1	-7	7	-103	-29
Malaysia		4.31	0.1	-0.4	-1.5	10.2	6.7		3.8	1	0	10	-28	6
Argentina		980	0.0	-0.6	-2.0	-64.3	-17.5		39.7	-21	-106	74	-6559	-4671
Brazil		5.65	0.0	-0.7	-3.4	-10.5	-14.2		12.7	10	35	77	80	234
Chile		942	0.4	-1.7	-1.1	0.0	-6.5		5.0	1	6	44	-99	10
Colombia		4256	0.2	-1.3	-1.1	-1.4	-8.9		8.3	0	27	86	-122	62
Mexico		19.74	0.5	-2.3	-2.3	-7.5	-14.0		9.2	0	18	66	-43	78
Peru		3.8	0.3	0.4	-0.1	2.5	-1.4		6.4	0	-5	12	-132	-26
Uruguay		42	0.3	0.1	-1.5	-4.3	-6.6		9.6	-4	10	-51	-19	10
Hungary		369	0.2	-0.5	-3.8	-1.2	-5.9		6.4	-1	12	58	-102	62
Poland		3.97	0.2	-1.2	-3.3	6.4	-0.9		5.0	-4	9	57	-4	52
Romania		4.6	0.2	-0.8	-2.4	2.9	-1.7		6.6	4	5	4	-28	40
Russia		96.3	1.2	-0.5	-3.6	1.8	-7.1							
South Africa		17.6	0.6	-0.9	-0.2	8.0	4.4		8.9	-4	13	39	-123	-26
Türkiye		34.29	-0.5	0.0	-0.7	-18.3	-13.9		29.7	21	19	81	42	294
US (DXY; 5y UST)		104	-0.2	0.7	3.0	-2.8	2.3		3.91	1	1	43	-102	6

	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		3,925	3.6	1.0	22.6	11.8	14.4		114	-2	-10	-53	-44
Indonesia		7,760	0.3	3.2	0.2	13.3	6.7		86	-3	-21	-36	-10
India		81,225	0.3	-0.2	-3.9	24.2	12.4		94	-2	-19	-42	-22
Philippines		7,416	0.2	1.4	2.3	20.7	15.0		73	-2	-19	-26	-7
Thailand		1,490	-0.3	1.5	2.6	6.5	5.2		0	0	0	0	0
Malaysia		1,646	0.3	0.8	-1.4	14.2	13.2		62	-10	-27	-33	-23
Argentina		1,801,604	1.4	1.7	-0.7	125.5	93.8		1103	-25	-263	-1279	-810
Brazil		130,793	-0.7	0.3	-2.2	14.7	-2.5		204	-6	-24	-15	-11
Chile		6,572	0.4	0.0	3.8	13.4	6.0		109	-3	-16	-33	-16
Colombia		1,346	0.7	2.8	3.0	18.7	12.6		301	-10	-19	-43	30
Mexico		52,464	0.0	0.1	-0.2	6.5	-8.6		299	0	-26	-65	-35
Peru		30,541	0.3	0.9	5.0	37.5	17.6		133	-7	-11	-26	-11
Hungary		74,563	0.6	0.4	2.5	30.6	23.0		141	-4	-24	-48	-8
Poland		82,840	1.2	-0.7	0.2	17.5	5.6		105	-1	-10	-3	8
Romania		17,431	0.0	-1.7	-0.3	22.8	13.4		181	-6	-26	-27	-19
South Africa		87,180	0.7	1.2	5.4	21.1	13.4		262	-1	-33	-128	-46
Türkiye		8,940	-0.7	0.7	-8.5	14.0	19.7		269	-4	-32	-122	-45
EM total		45	1.5	-1.2	6.1	21.4	13.1		380	-6	-21	-20	35

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

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