



- French bond spreads were little changed despite plans for delayed fiscal consolidation ([link](#))
- Analysts expect consecutive ECB rate cuts starting in October ([link](#))
- Chinese stocks in Hong Kong continued to rally, led by property developers ([link](#))
- Moody's upgraded Brazil's sovereign credit rating to one notch below investment grade ([link](#))
- Investment grade bonds have seen strong demand despite lower yields ([link](#))

[Mature Markets](#)

| [Emerging Markets](#)

| [Market Tables](#)

## Markets on edge amid escalating violence, but optimism on China continues

Markets stabilized somewhat late Tuesday into Wednesday, but investors will be waiting for an expected Israeli response and further violence. Global equity markets were mixed this morning, though Hong Kong rallied sharply (+6.2%) as optimism about Chinese stimulus continued (onshore Chinese markets are closed). Japanese stocks underperformed, with the Nikkei down over 2%. The safe haven bid for Treasuries faded, with bond yields up 4–5 bps this morning, while most European bond yields also moved higher. The dollar index gained slightly for the second consecutive day and oil prices climbed past \$75 per barrel. The VIX—a measure of implied volatility in equity markets—remained somewhat elevated at just below 20 after averaging around 16 last week. In currency markets, the Japanese yen weakened past 145 against the dollar following comments by incoming PM Ishiba that appeared to question whether further rate hikes were necessary. Elsewhere, ADP reported that US firms added 143k jobs (vs 125k expected) in September, sending Treasury yields marginally higher. Friday's jobs report will be the most closely watched data release of the week.

Key Global Financial Indicators

Last updated: 10/2/24 8:16 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		5709	-0.9	0	1	33	19.68
Eurostoxx 50		4939	-0.3	0	-1	19	9
Nikkei 225		37809	-2.2	0	-2	21	13
MSCI EM		46	0.7	1	7	22	15
<b>Yields and Spreads</b>			bps				
US 10y Yield		3.77	3.8	-2	-13	-91	-11
Germany 10y Yield		2.10	6.2	-8	-24	-82	7
EMBIG Sovereign Spread		361	0	-13	-27	-69	-22
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		46.1	0.0	0	1	-1	-4
Dollar index, (+) = \$ appreciation		101.3	0.1	0	0	-5	0
Brent Crude Oil (\$/barrel)		75.5	2.7	3	-3	-17	-2
VIX Index (% change in pp)		19.7	0.4	4	5	2	7

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

## Mature Markets

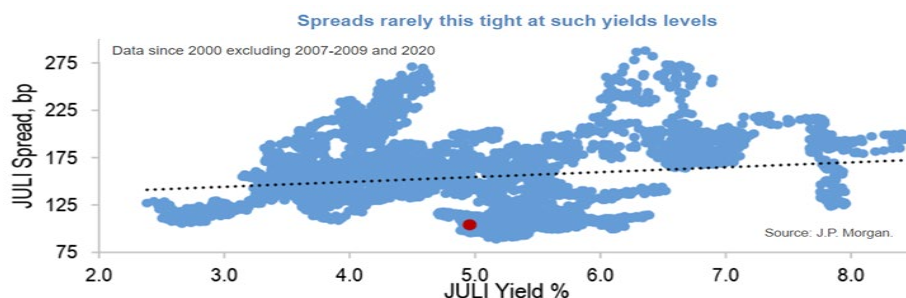
[back to top](#)

### United States

**Risk assets sold off and volatility spiked intraday as hostilities escalated in the Middle East before recovering on Tuesday.** Stocks sold off as much as 1.3% before closing 0.8% lower, while safe haven assets gained. Treasury yields declined in the morning before extending the move on the headlines about an Iranian attack on Israel, with 2y yields falling 7 bps at their trough. Oil prices saw the largest lasting impact, with Brent ending the day over 5% higher. Notably Bitcoin fell sharply, failing to provide any diversification benefits. Measures of market volatility spiked, though the move was modest by historical standards. Nevertheless, the implied volatility of the VIX (VVIX) remained elevated by end of day.

Reaction since 9:30AM EST	Maximum impact	Till 4pm	Unit
S&P 500	-1.3%	-0.8%	Percent
Implied Equity Volatility (VIX)	3.8	2.4	Points
Volatility of VIX (VVIX)	18.38	10.68	Points
US Treasury 2Y yield	-7	-4	Basis points
Brent Oil	6.9%	5.4%	Percent
Gold	0.8%	0.4%	Percent
Bitcoin	-4.0%	-4.6%	Percent
US Dollar (DXY)	0.2%	0.0%	Percent

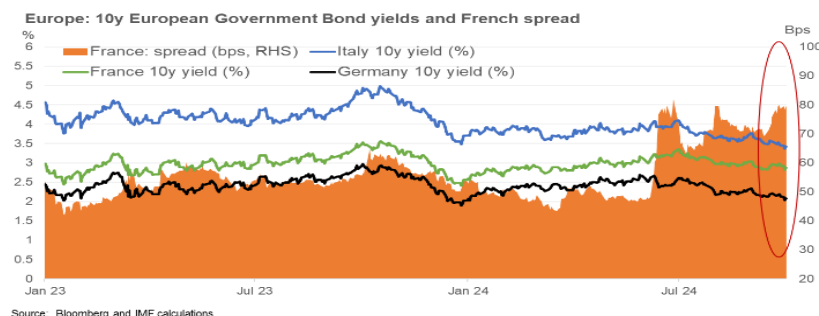
**Investment grade bonds have seen strong demand despite lower yields.** Corporate spreads tightened in September despite over \$150 bn in bond issuance. However, going forward, market analysts argue that spreads are already very compressed relative to history and richly valued compared to other assets. Risks are tilted towards the downside, with spreads vulnerable to any signs of a slowdown. Nevertheless, current valuations have been supported by a resilient economy, generally healthy corporate fundamentals, and declining returns on cash in recent weeks. Hedging costs for foreign investors have also declined, while risk sentiment in markets has remained buoyant following stimulus measures in China.



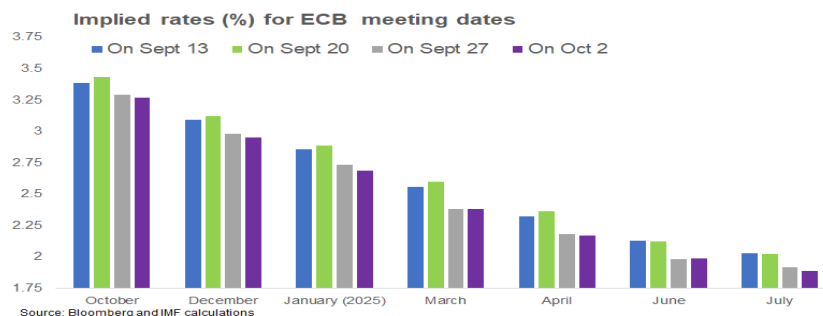
### Europe

**European equities were mixed this morning with the Stoxx 600 index marginally lower.** Most sectors were trading in the red, while the energy sector (+2.0%) was outperforming. Analysts noted that markets are in a wait-and-see mode amid rising geopolitical tension in the Middle East, with the Stoxx 600 ending yesterday 0.4% lower. The euro weakened against the dollar yesterday (-0.6%), amid the escalation of hostilities and lower European bond yields after September flash inflation data solidified expectations for an ECB rate cut in October. The euro was little changed this morning.

**French bond spreads were little changed despite authorities announcing that the budget deficit would miss the 3% deficit target until 2029.** Yesterday, PM Barnier outlined fiscal plans that include spending cuts and tax increases aimed at reducing the deficit to 5% of GDP next year. However, the deficit would only narrow to the 3% limit set by the ECB's Stability and Growth Pact by 2029, implying a two-year delay. 10y French OAT spreads fell slightly yesterday to around 78 bps amid a broad bond rally where French yields fell close to 11 bps. While European bond yields reversed course this morning (+5–6 bps across countries), the spread only inched up incrementally.



**Markets and some analysts are expecting consecutive ECB rate cuts starting in October.** HSBC analyst highlighted that leading indicators for core European economies have dropped sharply, while a cooling labor market should weigh on medium-term inflation. HSBC analysts now think the ECB will cut interest rates by 25 bps at every meeting from October 2024 through April 2025, leaving the key deposit rate at 2.25%. Deutsche Bank analysts also changed their call last week and now expect consecutive rate cuts from December (vs quarterly rate cuts previously) that will see the ECB reach its expected terminal rate by mid-2025 (vs end 2025 previously). Markets are pricing in 23 bps of easing in October and roughly 150 bps of easing by June 2025 to take the deposit rate to 2%. ECB Governing Council member Kazaks recent commentary cautioned against the markets getting ahead of themselves, though broadly remained supportive of a rate cut in October. On the data front, the unemployment rate in the euro area remained unchanged at 6.4% in August, as expected.



## Emerging Markets

[back to top](#)

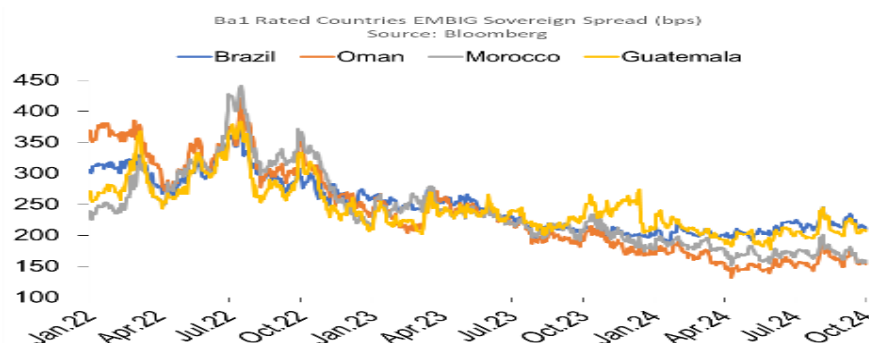
**EMEA equities were mixed while currencies were mostly weaker this morning.** Equities underperformed in Egypt (-1.8%) and Türkiye (-1.5%) while those in South Africa (+0.8%) gained. CEE currencies were mostly weaker against the euro with the Hungarian forint underperforming (-0.3%).

**In Asia, Hong Kong shares extended recent gains (+6.2%) following a holiday while sentiment was more cautious in the rest of Asia.** South Korean equities fell 1.2% following the release of the September headline CPI that fell below the central bank's 2% inflation target. Most regional currencies depreciated against the dollar, with the Thai baht underperforming (-0.5%). In India, the government appointed three new external members to the monetary policy committee (as scheduled) ahead of next week's meeting, replacing two outgoing members who had previously voted to cut interest rates.

**On Tuesday, Latin American assets were mixed,** with the Mexican peso (+0.4%) and Brazilian real (+0.2%) eking out gains, while other regional currencies weakened.

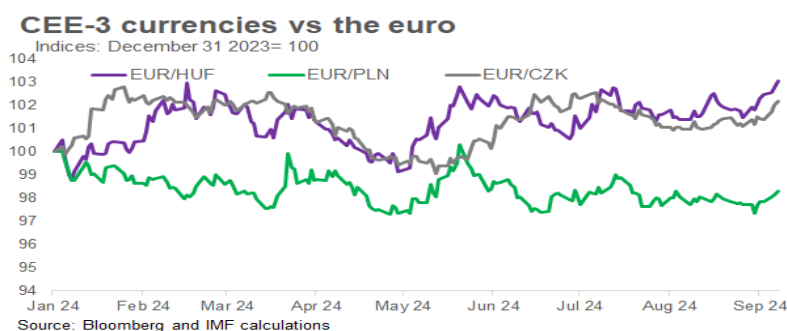
## Brazil

**Moody's upgraded Brazil's sovereign credit rating and maintained a positive outlook.** Moody's upgraded Brazil's long-term foreign currency rating to Ba1 (BB+ equivalent) from Ba2, one level below investment grade. Moody's cited "material credit improvements," stronger growth than previously expected, and an improved track record of economic and fiscal reforms as reasons for the upgrade. Moody's noted that stronger institutional credibility could lead to a lower cost of debt, which is reflected in the positive outlook. Both Fitch and S&P currently rate Brazil at BB, two levels below investment grade, with a stable outlook. **The real ended the day 0.2% higher.**



## Central and Eastern Europe (CEE)

**Risk off sentiment is weighing on CEE currencies amid Middle East turmoil.** ING analysts expect CEE currencies to underperform in the near term alongside a weaker EUR/USD rate. However, they also noted that rate differentials versus core markets are increasing, and regional currencies should stabilize over time. ING also felt there could be a hawkish surprise from the National Bank of Poland's meeting later today, following the release of September's inflation data, which could result in a "growing foreign exchange and rates market divergence that will have to be closed at some point, opening the door for fading the current FX weakness."



## China/Hong Kong

**Chinese stocks continued to rally, led by shares of property developers.** While onshore markets in mainland China remained closed, Hong Kong's Hang Seng index rose 6.2% and its China Enterprises Index—an index of onshore mainland shares listed in Hong Kong—climbed as much as 8.4%, the most in almost two years. An index of Chinese real estate shares constructed by Bloomberg Intelligence surged as much as 31% on the day, pushing its total gain over the last five trading sessions to 92%. Equity prices of several defaulted developers, including Shimao Group and Sunac China Holdings have surged more than 200% each, while Huarong International rose as much as 463% on the day alone. Nevertheless, market participants are still debating the durability of the latest market rally, with JPMorgan analysts highlighting that some of the gains are likely driven by short covering. Other analysts noted that the latest market rally

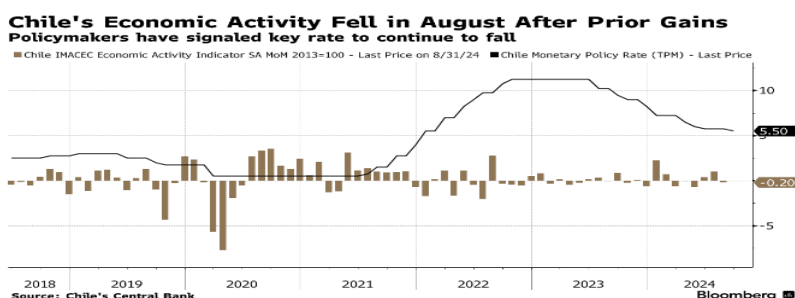
has been driven by a shift in investor positioning, including from hedge funds and mutual funds that had been underweight China. Morgan Stanley cautioned that lifting housing prices and reviving demand will remain challenging, with growth still expected to remain below the authorities' 5% target.



**All tier-1 cities in China have now introduced easing measures supporting the property sector.** All so-called tier-1 cities have relaxed home purchase requirements and lowered minimum downpayment ratios following the authorities announcement of various policy measures on September 24<sup>th</sup>. For example, after the market closed on September 30<sup>th</sup> and ahead of China's Golden Week holiday, Beijing lowered home purchase requirements in the city, effective October 1<sup>st</sup>. These measures include a reduction in downpayments for first home purchases from 20% to 15%, and from up to 35% for second home purchases to 20%.

## Chile

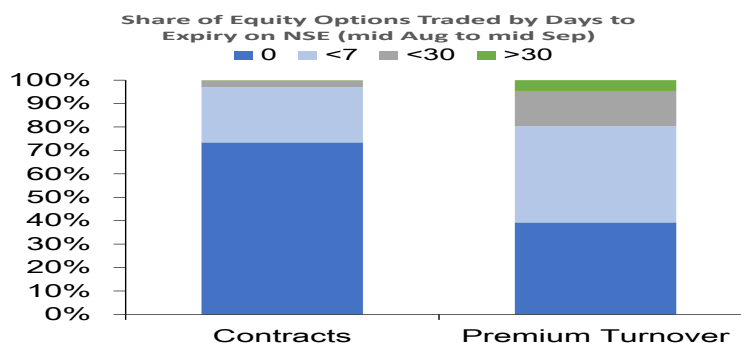
**Chilean assets underperformed following a lower-than-expected economic activity print.** August economic activity fell 0.2% m/m, below the median forecast of +0.3% m/m. On an annual basis, economic activity rose +2.3% y/y (vs 2.5% y/y expected). Bloomberg analysts believe the disappointing release will cement the central bank's plan for further monetary easing. The central bank has cut interest rates from 11.25% in June 2023 to 5.5%, and markets are pricing in another 150 bps of cuts over the next year. **The peso (-0.7%) depreciated and Chile's main equity index (-0.6%) fell** following the release, underperforming the region.



## India

**SEBI announced new restrictions on equity derivatives to stem rise in retail trading.** The Securities and Exchange Board of India (SEBI) announced new restrictions that will increase the minimum contract size, limit the number of weekly expiration contracts exchanges can offer, and require the monitoring of intraday position limits among other measures. Amid exponential growth in recent years, Indian markets now account for more than 80% of global equity option contracts traded. Retail investors have become a big player in the market, accounting for at least 35% of turnover, with rapid growth in transactions conducted through mobile platforms. Weekly options that expire on multiple days of the week have facilitated dynamics where the bulk of contracts are traded on the last day to expiry.

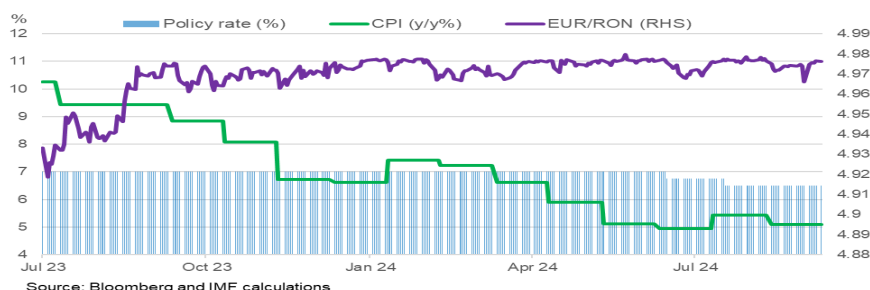




## Romania

**Analysts expect the National Bank of Romania (NBR) to stay on hold this week given sticky inflation.** The NBR had cut its policy rate by 25 bps at both its July and August policy meetings. While headline inflation moderated to 5.1% y/y in August, the reading came in above market expectations for the second consecutive month. Deutsche Bank analysts also noted that over the past few weeks both consumer inflation expectations and fiscal risks have increased. Analysts expect the central bank to resume easing in November, with the policy rate falling to 6.25% by end-2024 and 4.5% by end-2025.

Romania: Headline CPI, policy rate and Currency



*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 Tyler (Administrative Coordinator) are responsible for the word processing and production of this monitor.*

**Disclaimer:** This is an internal document produced by the Global Markets Analysis Division (GA) of the Monetary and Capital Markets Department. It reflects GA staff's interpretation and analysis of market views and developments. Market views presented may or may not reflect a consensus of market participants. GA staff do not independently verify the accuracy of all data and events presented in





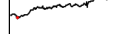








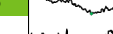






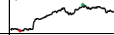






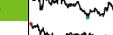
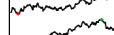
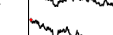



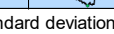


## Global Financial Indicators

10/2/24 8:19 AM	Level		Change				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
<b>Equities</b>			%				%
United States		5701	-0.9	0	1	33	20
Europe		4936	-0.4	0	-1	19	9
Japan		37809	-2.2	0	-2	21	13
China		4018	8.5	25	21	9	17
Asia Ex Japan		79	1.2	2	9	25	19
Emerging Markets		46	0.7	1	7	22	15
<b>Interest Rates</b>			basis points				
US 10y Yield		3.78	4.8	-1	-12	-90	-10
Germany 10y Yield		2.10	6.5	-7	-24	-82	8
Japan 10y Yield		0.83	-3.0	1	-9	5	21
UK 10y Yield		4.03	8.7	4	-3	-54	49
<b>Credit Spreads</b>			basis points				
US Investment Grade		129	-0.1	-1	-5	-23	-5
US High Yield		356	-2.9	-8	-9	-82	-30
<b>Exchange Rates</b>			%				
USD/Majors		101.29	0.1	0	0	-5	0
EUR/USD		1.11	0.0	-1	0	6	0
USD/JPY		145.1	1.1	0	-1	-3	3
EM/USD		46.1	0.0	0	1	-1	-4
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		75.5	2.6	4	-2	-8	1
Industrials Metals (index)		156	0.5	4	8	10	10
Agriculture (index)		58	-0.4	0	7	-9	-7
<b>Implied Volatility</b>			%				
VIX Index (%, change in pp)		19.7	0.4	4.3	4.7	2.1	7.2
Global FX Volatility		8.9	0.0	0.5	0.3	0.6	0.8
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		100	-0.1	1	-3	-48	-4
Italy		134	0.6	-1	-10	-55	-34
Portugal		57	-1.5	-1	-3	-18	-7
Spain		80	0.0	0	-1	-28	-17

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

## Emerging Market Financial Indicators

Last updated: 10/2/2024 8:14 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		7.02	-0.1	0.5	1.4	4	1		2.0	1.0	20	6	-72	-53
Indonesia		15265	-0.4	-1.1	2	2	1		6.5	3.8	6	-15	-48	2
India		84	0.0	-0.2	0	-1	-1		6.9	-0.1	1	-14	(81.5)	-27
Philippines		56	0.0	-0.5	0	1	-1		4.8	-1.3	-9	-24	-103	-83
Thailand		33	-0.5	-0.2	4	13	4		2.4	1.0	6	-1	-87	-26
Malaysia		4.18	-0.5	-1.1	4	13	10		3.7	-0.5	-1	-5	-27	-2
Argentina		970	-0.1	-0.5	-2	-64	-17		40.2	71.9	-74	-150	-7847	-4620
Brazil		5.42	0.4	1.0	4	-7	-10		12.1	-14.1	0	5	18	173
Chile		903	0.2	1.1	2	1	-3		4.7	0.0	-13	-32	-113	-26
Colombia		4222	-0.4	-1.6	-1	-1	-9		7.6	-1.0	-7	-21	-164	-2
Mexico		19.52	0.5	0.6	2	-9	-13		8.7	0.0	6	-41	-85	25
Peru		3.7	-0.4	1.2	1	2	0		6.2	-0.3	-8	#VALUE!	-113	-47
Uruguay		42	0.0	0.9	-4	-7	-7		9.7	0.1	-48	14	10	18
Hungary		361	-0.4	-1.6	-2	3	-4		5.9	12.0	6	-4	-151	17
Poland		3.88	-0.1	-1.1	-1	14	1		4.5	4.8	-1	-15	-42	7
Romania		4.5	0.0	-0.5	0	6	0		6.4	0.9	-7	-3	-33	24
Russia		94.5	1.3	-2.6	-5	5	-5							
South Africa		17.4	0.1	-0.7	3	10	6		8.6	5.5	12	-16	-144	-55
Türkiye		34.23	0.0	-0.3	-1	-20	-14		29.0	8.0	67	78	185	225
US (DXY; 5y UST)		101	0.1	0.4	0	-5	0		3.53	2.4	1	-17	-118	-31

	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		4018	0.0	25	21	9	17		124	-2	0	-48	-34		
Indonesia		7563	-1.0	-2	-1	9	4		101	-2	1	-29	5		
India		84266	0.0	-1	2	28	17		103	-7	-10	-36	-13		
Philippines		7403	0.3	1	8	17	15		86	-2	-1	-20	6		
Thailand		1451	-0.9	-1	6	0	3		0	0	0	0	0		
Malaysia		1639	-1.0	-2	-2	15	13		76	-7	-8	-20	-9		
Argentina		1728761	1.8	-3	-1	210	86		1293	-14	-145	-1254	-620		
Brazil		132495	0.5	0	-2	15	-1		218	-5	-3	-4	3		
Chile		6449	-0.6	0	0	12	4		114	-7	-3	-12	-11		
Colombia		1307	0.0	-1	-4	17	9		315	2	3	-22	44		
Mexico		52477	-0.6	0	1	3	-9		307	-7	-13	-64	-27		
Peru		30131	0.6	1	5	36	16		134	-6	-3	-22	-10		
Hungary		73656	-0.7	-1	1	32	22		153	-3	5	-47	4		
Poland		82828	-0.1	-1	-4	29	6		114	2	13	-11	17		
Romania		17485	-0.5	-1	-3	22	14		195	-5	-2	-12	-6		
South Africa		87347	0.8	2	5	23	14		277	-9	-15	-114	-31		
Türkiye		9198	-1.6	-7	-9	8	23		283	-4	-16	-106	-31		
EM total		46	2.5	1	7	22	15		394	-5	-6	-2	49		

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

[back to top](#)